



# 2

## Consolidated financial statements

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The consolidated financial statements published for the year ended December 31, 2019 have been 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.

## 2.1 Consolidated statement of financial position

(in € thousands)	Notes	December 31, 2019	December 31, 2018
Goodwill	3	68 552	65 616
Other intangible assets	4	299 118	95 070
<b>Intangible assets</b>		<b>367 670</b>	<b>160 686</b>
Investment property	5	68 334	70 979
Financial investments	6	2 121 098	2 014 250
Derivatives		12 365	7 934
<b>Investments</b>		<b>2 201 797</b>	<b>2 093 163</b>
<b>Investments accounted for at the equity method</b>	7	<b>147 904</b>	<b>141 337</b>
<b>Share of assignees and reinsurers in the technical reserves and financial liabilities</b>	18	<b>1 193 250</b>	<b>1 078 695</b>
Operating property and other property, plant and equipment	5-8	46 615	35 225
Deferred acquisition costs		65 255	54 571
Deferred tax assets	9	15 519	17 211
Inwards insurance and reinsurance receivables	10	507 214	459 532
Outwards reinsurance receivables	10	19 079	17 913
Corporation tax receivables		21 000	11 648
Other receivables	11	213 296	226 229
<b>Other assets</b>		<b>887 978</b>	<b>822 329</b>
Cash	12	178 335	189 051
<b>TOTAL ASSETS</b>		<b>4 976 934</b>	<b>4 485 261</b>
Capital stock		229 390	229 390
Additional paid-in capital		179 824	179 824
Reserves		714 030	773 251
Net income, group share		142 268	127 653
Revaluation reserve	13	51 525	(3 157)
Foreign exchange translation		(36 348)	(50 595)
<b>Shareholders' equity, Group share</b>		<b>1 280 689</b>	<b>1 256 366</b>
Non controlling interests	14	242 922	222 179
<b>Total shareholders' equity</b>		<b>1 523 611</b>	<b>1 478 545</b>
<b>Provisions for risks and charges</b>	15-16	<b>327 904</b>	<b>303 429</b>
Bank borrowings		67 901	40 437
Other borrowings		104 016	35 003
<b>Borrowings</b>	17	<b>171 917</b>	<b>75 440</b>
Non-life technical reserves	18	2 079 984	1 941 887
<b>Liabilities related to insurance contracts</b>		<b>2 079 984</b>	<b>1 941 887</b>
Deferred tax liabilities	9	74 053	75 292
Inwards insurance and reinsurance liabilities	19	170 006	169 137
Outwards reinsurance liabilities	19	95 902	97 595
Corporation tax payables		26 020	50 190
Other payables	20-23	507 537	293 746
<b>Other liabilities</b>		<b>873 518</b>	<b>685 960</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4 976 934</b>	<b>4 485 261</b>

## 2.2 Consolidated income statement

(in € thousands)	Notes	December 31, 2019	December 31, 2018
Premiums written		2 110 471	1 987 199
Premiums refunded		(143 711)	(141 105)
Change in unearned premiums		(38 719)	(38 141)
<b>Earned premiums</b>		<b>1 928 041</b>	<b>1 807 953</b>
Service revenues		273 095	267 502
<b>Turnover</b>	<b>21</b>	<b>2 201 136</b>	<b>2 075 455</b>
Investment income		51 282	47 998
Investment management charges		(9 085)	(8 411)
Net gain (loss) on sales of investments less impairment and depreciation writebacks		7 024	12 404
Change in fair value of investments recognised at fair value through profit or loss		(2 798)	(1 607)
Change in investment impairment provisions		(2 872)	(204)
Net change in foreign currency		(1 932)	(3 322)
<b>Net investment income</b>	<b>22</b>	<b>41 619</b>	<b>46 858</b>
<b>Insurance services expenses</b>		<b>(1 004 076)</b>	<b>(794 090)</b>
Outwards reinsurance income		1 211 308	977 471
Outwards reinsurance expenses		(1 428 637)	(1 330 728)
<b>Net outwards reinsurance income or expenses</b>	<b>21</b>	<b>(217 329)</b>	<b>(353 257)</b>
Contract acquisition expenses		(366 760)	(362 510)
Administration expenses		(218 673)	(215 142)
Other ordinary operating income	24	110 128	115 608
Other ordinary operating expenses	24	(343 708)	(313 590)
<b>CURRENT OPERATING INCOME</b>	<b>21</b>	<b>202 337</b>	<b>199 332</b>
Other non ordinary operating expenses	25	(289)	(3 773)
Other non ordinary operating income	25	-	-
<b>OPERATING INCOME</b>		<b>202 048</b>	<b>195 559</b>
Financing expenses		(2 871)	(4 098)
Share of Income from companies accounted for at the equity method	7	11 863	10 874
Corporation tax	26	(59 538)	(64 423)
<b>CONSOLIDATED NET INCOME</b>		<b>151 502</b>	<b>137 912</b>
o/w			
<b>NET INCOME, GROUP SHARE</b>		<b>142 268</b>	<b>127 653</b>
Non controlling interests		9 234	10 259

## 2.3 Consolidated statement of other comprehensive income

(in € thousands)	Notes	December 31, 2019	December 31, 2018
<b>NET INCOME, GROUP SHARE</b>		<b>142 268</b>	<b>127 653</b>
Net income, Non controlling interests	14	9 234	10 259
Actuarial gains and losses on defined benefit plans net of tax		(25 138)	3 696
<b>Other comprehensive income - Items that may never be reclassified to profit and loss</b>		<b>(25 138)</b>	<b>3 696</b>
Available-for-sale investments - reclassification to net income	13	(4 690)	(9 947)
Tax impact	13	117	558
Available-for-sale investments - changes in fair value arising during the period	13	75 173	(47 003)
Tax impact	13	(17 464)	10 208
Foreign currency translation adjustments		15 793	1 384
<b>Other comprehensive income - Items that may be reclassified to profit and loss in future periods</b>		<b>68 929</b>	<b>(44 800)</b>
Other comprehensive income - non controlling interests share net of tax	14	18 206	(17 013)
<b>Total comprehensive income</b>		<b>213 499</b>	<b>79 795</b>
Total comprehensive income, Group share		186 059	86 549
Total comprehensive income, Non controlling interests	14	27 440	(6 754)

## 2.4 Consolidated statement of cash flows

(in € thousands)	Notes	December 31, 2019	December 31, 2018
<b>Net income, Group share</b>		<b>142 268</b>	<b>127 653</b>
Corporation tax	26	59 538	64 423
Financing expense		2 871	4 098
Minority interests		9 234	10 259
Income (loss) of companies accounted for at the equity method	7	(11 863)	(10 874)
<b>Operating income before tax</b>		<b>202 048</b>	<b>195 559</b>
Allocation to and writebacks of depreciation, amortization and reserves		52 664	22 606
Change in technical reserves		703	(28 596)
Change in deferred acquisition costs		3 671	(526)
Change in fair value of financial instruments recognised at fair value through the income statement (excluding cash and cash equivalents)		930	1 400
Realised capital gains/(losses) net of writebacks		(7 022)	(14 653)
Unrealised foreign exchange gain (loss) in company accounts		9 033	(2 414)
Interest revenues received accrued		230	3 128
<b>Adjustment for elements included in operating income that do not correspond to cash flows and reclassification of financing and investment flows</b>		<b>60 209</b>	<b>(19 055)</b>
Dividends received from companies accounted for at the equity method	7	5 901	6 992
Change in liabilities and receivables relating to insurance and reinsurance transactions		(41 653)	(37 548)
Change in operating receivables and liabilities		22 222	17 965
Change in other assets and liabilities		(17 307)	(5 690)
Corporation tax		(102 864)	(34 291)
<b>Cash flow related to operating activities</b>		<b>(133 701)</b>	<b>(52 572)</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>128 556</b>	<b>123 932</b>
Acquisitions of subsidiaries and joint ventures, net of acquired cash		(5 510)	-
Disposals of subsidiaries and joint ventures, net of ceded cash	7	(9 372)	-
<b>Cash flow linked to changes in the consolidation scope</b>		<b>(14 882)</b>	<b>-</b>
Disposals of AFS securities		974 547	818 454
Disposals of investment properties	5	-	35
Disposals of securities held for trading		4 867	2 750
<b>Cash flow linked to disposals and redemptions of investments</b>		<b>979 414</b>	<b>821 239</b>
Acquisitions of AFS securities	6	(1 017 397)	(897 861)
Acquisitions of investment and operating properties	5	(959)	(47)
Acquisitions of trading securities		(10 204)	(6 620)
<b>Cash flow linked to acquisitions of investments</b>		<b>(1 028 560)</b>	<b>(904 528)</b>
Disposals of other investments and intangible assets <sup>(1)</sup>	4, 6	206 735	153 964
Acquisitions of other investments and intangible assets <sup>(1)</sup>	4, 6	(249 530)	(56 142)
<b>Cash flow linked to acquisitions and disposals of other investments and intangible assets</b>		<b>(42 795)</b>	<b>97 822</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(106 823)</b>	<b>14 533</b>

(1) These amounts are mainly composed of short term cash operations and of the right-of-use assets linked to IFRS 16

(in € thousands)	Notes	December 31, 2019	December 31, 2018
Increases and decreases in capital	14	- 3 430	21 105
Dividends paid		(163 267)	(85 467)
<b>Cash flow linked to transactions with the shareholders</b>		<b>(166 697)</b>	<b>(64 362)</b>
Changes in loans and subordinated securities		66 156	(62 485)
<i>Issue</i>		123 191	12 262
<i>Repayment</i>		(57 035)	(74 747)
Interest paid		(2 874)	(4 110)
<b>Cash flow from Group financing</b>		<b>63 282</b>	<b>(66 595)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(103 415)</b>	<b>(130 957)</b>
Impact of foreign exchange differences on cash and cash equivalents		1 296	(1 905)
Reclassification		657	(32)
<b>OTHER NET CHANGES IN CASH</b>		<b>1 953</b>	<b>(1 937)</b>
<b>Change in cash flows</b>		<b>(79 729)</b>	<b>5 571</b>
<b>Change in cash and cash equivalents</b>		<b>(79 729)</b>	<b>5 571</b>
<b>Cash and cash equivalents at beginning of period</b>	12	<b>154 048</b>	<b>148 477</b>
<b>Cash and cash equivalents at end of period</b>	12	<b>74 319</b>	<b>154 048</b>

During 2019, the cash position decreased by €79.7 million.

- Cash flows from operating activities increased by €4.6 million in 2019, from €123.9 million at the end of December 2018 to €128.6 million at the end of December 2019.
- Investment activities contributed to a €106.8 million net cash outflow in 2019 against a €14.5 million net cash inflow in 2018, mainly due to the increase in new investments net of disposals in other investments and intangible assets (-€42.8 million in 2019 against €97.8 million in 2018). This is particularly due to the implementation of the IFRS 16 Standard which impacts the net investments for -€67 million in 2019.
- Cash outflows resulting from the financing activities decreased from €131 million in 2018 to €103 million in 2019. It is mainly explained by the increase in dividend paid for €163 million in 2019 (compared to €85 million in 2018), partially offset by the net change in lease liabilities (IFRS 16) amounting to €42 million.

## 2.5 Consolidated statement of changes in equity

### For the year 2019

(in € thousands)

	Capital Stock	Additional paid-in-capital	Consolidation reserve and Retained earnings	Revaluation reserve	Translation reserve	Treasury shares	Shareholders' equity, group share	Non controlling interests	Total shareholders' equity
<b>Opening Shareholders' equity</b>	<b>229 390</b>	<b>179 824</b>	<b>935 553</b>	<b>(3 158)</b>	<b>(50 595)</b>	<b>(34 649)</b>	<b>1 256 365</b>	<b>222 179</b>	<b>1 478 544</b>
Available-for-sale assets (AFS)									
Measurement gain / (loss) taken to shareholders' equity	-	-	-	57 709	-	-	57 709	19 257	76 966
Impact of transferring realised gains and losses to income statement	-	-	-	(4 573)	-	-	(4 573)	(1 334)	(5 907)
Actuarial gain / (loss) on defined benefit plans	-	-	(25 138)	-	-	-	(25 138)	-	(25 138)
Impact of translation differences	-	-	-	1 546	14 247	-	15 793	283	16 076
<b>Components of other comprehensive income net of tax</b>	<b>-</b>	<b>-</b>	<b>(25 138)</b>	<b>54 682</b>	<b>14 247</b>	<b>-</b>	<b>43 791</b>	<b>18 206</b>	<b>61 997</b>
<b>Net income for the year</b>	<b>-</b>	<b>-</b>	<b>142 268</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>142 268</b>	<b>9 234</b>	<b>151 502</b>
<b>Comprehensive income of the period</b>	<b>-</b>	<b>-</b>	<b>117 130</b>	<b>54 682</b>	<b>14 247</b>	<b>-</b>	<b>186 059</b>	<b>27 440</b>	<b>213 499</b>
Capital movements	-	-	-	-	-	-	-	(3 430)	(3 430)
Dividend distributions	-	-	(160 000)	-	-	-	(160 000)	(3 267)	(163 267)
Transaction between shareholders	-	-	(1 249)	-	-	-	(1 249)	-	(1 249)
Other movements	-	-	(487)	1	-	-	(486)	(0)	(486)
<b>Closing Shareholders' equity</b>	<b>229 390</b>	<b>179 824</b>	<b>890 947</b>	<b>51 525</b>	<b>(36 348)</b>	<b>(34 649)</b>	<b>1 280 689</b>	<b>242 922</b>	<b>1 523 611</b>

As at December 31, 2019, the registered capital of Euler Hermes SA (NV) consisted of 2,925,155 fully paid-up shares, which is the same as last year. At the same date Euler Hermes SA held 78,340 treasury shares.

During the year, the increase in the revaluation reserve totaled €54,682 thousand net of taxes, thereof €57,709 thousand due to re-evaluation at market value of available-for-sale (AFS) investments taken to shareholders' equity and €4,573 thousand of realized gains on the disposal of AFS investments.

The increase in the translation reserve by €14,247 thousand during the year relates mainly to the British pound with an impact of €8,166 thousand, the Russian ruble with an impact of €1,855 thousand, the Singapore dollar with an impact of €1,447 thousand, and the Swiss franc with an impact of €-1,410 thousand.



## For the year 2018

(in € thousands)	Capital Stock	Additional paid-in-capital	Consolidation reserve and Retained earnings	Revaluation reserve	Translation reserve	Treasury shares	Shareholders' equity, group share	Non controlling interests	Total shareholders' equity
<b>Opening Shareholders' equity</b>	<b>229 390</b>	<b>179 824</b>	<b>884 151</b>	<b>39 659</b>	<b>(48 613)</b>	<b>(34 649)</b>	<b>1 249 762</b>	<b>213 295</b>	<b>1 463 057</b>
Available-for-sale assets (AFS)									
Measurement gain / (loss) taken to shareholders' equity	-	-	-	(36 795)	-	-	(36 795)	(13 995)	(50 790)
Impact of transferring realised gains and losses to income statement	-	-	-	(9 389)	-	-	(9 389)	(4 244)	(13 633)
Actuarial gain / (loss) on defined benefit plans	-	-	3 696	-	-	-	3 696	-	3 696
Impact of translation differences	-	-	-	3 367	(1 983)	-	1 384	1 226	2 610
<b>Components of other comprehensive income net of tax</b>	<b>-</b>	<b>-</b>	<b>3 696</b>	<b>(42 817)</b>	<b>(1 983)</b>	<b>-</b>	<b>(41 104)</b>	<b>(17 013)</b>	<b>(58 117)</b>
<b>Net income for the year</b>	<b>-</b>	<b>-</b>	<b>127 653</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>127 653</b>	<b>10 259</b>	<b>137 912</b>
<b>Comprehensive income of the period</b>	<b>-</b>	<b>-</b>	<b>131 349</b>	<b>(42 817)</b>	<b>(1 983)</b>	<b>-</b>	<b>86 549</b>	<b>(6 754)</b>	<b>79 795</b>
Capital movements	-	-	-	-	-	-	-	21 104	21 104
Dividend distributions	-	-	(80 000)	-	-	-	(80 000)	(5 467)	(85 467)
Transaction between shareholders	-	-	-	-	-	-	-	-	-
Other movements	-	-	53	1	1	-	55	1	56
<b>Closing Shareholders' equity</b>	<b>229 390</b>	<b>179 824</b>	<b>935 553</b>	<b>(3 157)</b>	<b>(50 595)</b>	<b>(34 649)</b>	<b>1 256 366</b>	<b>222 179</b>	<b>1 478 545</b>

## 2.6 Notes to consolidated financial statements

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## Note 1 Significant events

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### Registered capital and share ownership

As at December 31, 2019, Euler Hermes SA (NV)'s registered capital was composed of 2,925,155 shares, including 78,340 shares held in treasury stock.

As at December 31, 2019, Euler Hermes Group owned 2,846,815 shares out of a total of 2,925,155 shares, corresponding to 97.3% of the registered capital and Euler Hermes Group is fully owned by Allianz. Consequently, Euler Hermes SA (NV) is consolidated by the Allianz Group.

### Euler Hermes has launched its open data portal, granting public access to millions of exclusive data:

**With this pioneering initiative, Euler Hermes' goal is to contribute to the culture and practice of opening data access in the corporate world.**

Euler Hermes has released its open data platform ([opendata.eulerhermes.com](http://opendata.eulerhermes.com)) for anyone to access, use and share its valuable data on international B2B trade and is committed to expanding it based on public request.

Data has always been at the core of Euler Hermes' credit risk underwriting. It represents a powerful tool helping clients select the right prospects and do business with confidence. In recent years, Euler Hermes studied the development of open data portals, which often took the shape of government-led initiatives, for transparency or compliance purposes. As a key player in data intelligence, Euler Hermes seeks to set an example in the global data community by sharing its unique data on international B2B trade.

#### **A platform that helps users make sense of international trade data**

This public online data platform gives free access to a first dataset of around 1,800,000 data points collected by Euler Hermes over a three-year period (2016-2017-2018). Euler Hermes' open data portal meets the highest standards: it is available via API or on the web with various options for manual processing and data visualization. The platform, hosted by OpenDataSoft, provides academics, journalists, data scientists and the like with the necessary data to carry out their analysis.

The Euler Hermes portal shares anonymized data both by country and by trade sector. It includes valuable insights such as the impact of a company's country of incorporation on the likelihood to obtain payment: for example, companies legally registered in Russia and exporting to China will be able to compare how likely they are to get paid compared to firms also exporting to China but registered in Germany.

#### **Tighter collaboration within the corporate world and beyond**

From the early stages of the project, Euler Hermes sought to build bridges within and beyond the corporate world. The company collaborated with Professor Christophe Pérignon, Head of Research at the HEC Paris Business School to identify relevant data for academics, data scientists and economists:

"Euler Hermes' willingness to share data is of tremendous value to the academic community. It means we are now able to work on real-life data from a large number of countries, thanks to Euler Hermes' international presence. It is the first time that a large corporation reaches out to us with an open-access data project. This action in itself shows a strong sense of corporate social responsibility", explains Christophe Pérignon.

By sharing their data with a larger audience, corporations like Euler Hermes can help drive the creation of innovative businesses and services. "Our goal in making the unique Euler Hermes data available to all is to create a community around international B2B trade data. We want to turn this data into action and help solve business challenges across sectors. Ultimately, we hope to set an example and encourage other companies to open data to better serve society", explains Jennifer Baert, Global Head of Information & Credit Risk at Euler Hermes.

This open data portal is a first step towards creating a culture of data openness in the corporate world and Euler Hermes is hoping other companies will soon follow its example. In the meantime, Euler Hermes will seek ways to increase access to its data and help people better understand companies' payment practices as well as how they trade and buy goods or services.

### Consolidation scope

The entity Euler Hermes World Agency, owned by Euler Hermes Group, was purchased by Euler Hermes France and was included for the first time in the consolidated financial statements during the first quarter of 2019. As at April 1<sup>st</sup> 2019, Euler Hermes World Agency merged into Euler Hermes France.

A new insurance branch, Euler Hermes SA Shanghai Representative Office, was founded and was included for the first time in the consolidated financial statements during the first quarter of 2019.

## Note 2 IFRS accounting and valuation rules

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Euler Hermes SA (NV) is a company domiciled in Belgium. Its registered office is located at Avenue des Arts 56 - 1000 Brussels. The Group's consolidated financial statements for the year ended December 31, 2019 include Euler Hermes SA (NV) and its subsidiaries (the whole designated as "the Group" and each subsidiary individually as "the entity of the Group") and the Group's share in its associates or joint ventures.

Euler Hermes SA (NV) is registered under enterprise number BE0403248596, as published in the Belgian State Gazette (Moniteur Belge).

The Group consolidated financial statements for the year ended December 31, 2019 were approved by the Group Board of Directors on April 21, 2020. They will be submitted for shareholder approval at the Shareholders' Meeting of May 13, 2020.

These consolidated financial statements have been drawn up following the obligation, which was introduced by the Belgian royal decree of September 27, 2009, for any Belgian company with controlling interests in at least one subsidiary to prepare, starting from 2012, IFRS-compliant consolidated financial statements.

### 2.1 General principles

In accordance with European regulation No. 1606/2002 of July 19, 2002, the consolidated financial statements published for the year ended December 31, 2019 have been 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. These Notes must be read together with the Group's consolidated financial statements for the year ended December 31, 2019, prepared in accordance with IFRS as adopted by the European Union.

The standards and interpretations applied stem essentially from:

- IAS/IFRS and their interpretative texts whose application is mandatory as at December 31, 2019 as adopted for use in the European Union.

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 for financial instruments measured at fair value (financial instruments at fair value through the consolidated 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 Changes in the accounting framework applicable to the Group in 2019

#### **Mandatory application of IFRS 16 as from January 1<sup>st</sup>, 2019:**

In January 2016, the IASB issued IFRS 16, Leases, which supersedes IAS 17, IFRIC 4, SIC-15, and SIC-27. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has applied IFRS 16 using the modified retrospective approach; therefore, any comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts previously identified as leases. Contracts that had not been identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

#### **As a lessee**

As a lessee, the Group had previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on the balance sheet.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets (e.g. tablets, personal computers, telephones, office furniture, small copy and fax machines) as well as car leases as these are considered not to be material for Group. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **LEASES PREVIOUSLY CLASSIFIED AS OPERATING LEASES UNDER IAS 17**

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Allianz Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at an amount equal to the lease liability and

adjusted by the amount of any prepaid or accrued lease payments. The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

Applied a single discount rate to a portfolio of leases with similar characteristics.

- Adjusted the right-of-use assets by the amount of the IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application.
- Used hindsight in determining the lease term, if the contract contains options to extend or terminate the lease.

## LEASES PREVIOUSLY CLASSIFIED AS FINANCE LEASES UNDER IAS 17

### As a lessor

The Group was not required to make any adjustments on transition to IFRS 16 for leases for which it acts as a lessor, except for subleases. The Group has accounted for its sublease in accordance with IFRS 16 from the date of initial application. Under IFRS 16, the Group is required to assess the classification of subleases with reference to the right-of-use assets, not the underlying assets. On transition, the Group reassessed the classification of its sublease contract previously classified as operating leases under IAS 17. The Group concluded that the sublease is a finance lease under IFRS 16.

### IMPACTS ON CONSOLIDATED FINANCIAL STATEMENTS

On transition to IFRS 16, the Group recognized an additional €163,1 million of right-of-use assets in other intangible assets and €174,3 million of lease liabilities in other payables, recognizing the difference against prepaid rent, deferred rent, and onerous contract provisions.

#### Impact on consolidated balance sheet

(in € thousand)

January 1st, 2019

	Before first application of IFRS 16	Application of IFRS 16	After implementation of IFRS 16
Other intangible assets	95 070	163 052	258 122
<b>TOTAL ASSETS</b>	<b>95 070</b>	<b>163 052</b>	<b>258 122</b>
Other payables	293 746	160 834	454 581
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>293 746</b>	<b>160 834</b>	<b>454 581</b>

When measuring lease liabilities, the Allianz Group discounted lease payments using a country- and asset-specific incremental borrowing rate at 1 January 2019, ranging between 0.1 % and 19.7 %. The average incremental borrowing rate of Group EH SA applied to the lease liabilities booked as at 1 January 2019 is 9,38 %.

The operating lease commitment reported under IAS 17 can be reconciled to the lease liabilities according to IFRS 16 as follows:

#### Reconciliation of lease commitments to lease liabilities

(in € thousand)

Operating lease commitment at 31 December 2018	242 894
Recognition exemption for agreements not yet started <sup>1</sup>	(49 690)
Recognition exemption for short-term leases or leases expiring before 31 December 2019	(3 646)
Recognition exemption for leases of low value assets	(75)
Recognition exemption for car leases	(7 536)
Discounted using the incremental borrowing rate at 1 January 2019	(7 647)
<b>Lease Liabilities recognized at 1 January 2019</b>	<b>174 301</b>

<sup>1</sup> Under IFRS 16, it is not allowed to recognize the right-of-use assets on lease agreements that are not started yet

The difference between the € 174.3 millions of lease liabilities recognized at 1 January 2019 and the €160.8 millions of impact on the other payables is explained by the reclassification of the balances of free rents to be amortized until the end of the lease agreements in other intangible assets, and mainly of the free rents for the Tower First in Paris for € 12.7 millions.

## Early application of standards

The Group has not early adopted standards and interpretations that are not yet mandatory as of January 1st, 2019.

## Recently issued IFRS accounting standards

### ▪ IFRS 17, Insurance contracts

In May 2017, the IASB issued IFRS 17, Insurance Contracts. The IASB tentatively decided to defer the mandatory effective date of IFRS 17 by one year in their November 2018 Board meeting, so that IFRS 17 should be applied after January 1st, 2022 (retrospective application). Therefore the standard is expected to be applicable on January 1st, 2022 with a year of comparison as of January 1st, 2021. The internal implementation project at Group level, which was launched in May 2017, aims at ensuring readiness for the application of IFRS 17 in 2022.

IFRS 17 provides comprehensive guidance on accounting for insurance contracts. For non-life insurance contracts, IFRS 17 introduces mandatory discounting of loss reserves as well as a risk adjustment for non-financial risk. Further, IFRS 17 will change the presentation of insurance contract revenue; a gross written premium will no longer be presented in the statements of comprehensive income.

The Group intends to follow the Premium Allocation Approach and is currently assessing the impact of the application of IFRS 17. As of the date of the publication of these consolidated financial statements, it is not practicable to quantify the effect on the Group's consolidated financial statements.

### ▪ IFRS 9, Financial Instruments

IFRS 9, issued by the IASB in July 2014, fully replaces IAS 39 and provides a new approach on how to classify financial instruments based on their cash flow characteristics and the business model under which they are managed. Furthermore, the standard introduces a new forward-looking impairment model for debt instruments and provides new rules for hedge accounting.

The main impact from IFRS 9 arise from the new classification rules leading to more financial instruments being measured at fair value through profit and loss as well as the new impairment model. Interdependencies with IFRS 17 will need to be considered to assess the ultimate combined impact of both standards.

The amendments to IFRS 4 (*"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts"*) issued in September 2016 allow entities that issue insurance contracts within the scope of IFRS 4 to defer the implementation of IFRS 9 until January 1<sup>st</sup>, 2021, under certain circumstances. It is to be noted that the IASB has recently proposed to defer the IFRS 9 effective date for such entities in scope by another year until 2022. The Group has decided to use the option to defer the full implementation of IFRS 9 until IFRS 17 becomes effective.

In order to qualify for this exemption an entity has to prove that its activities are predominantly connected to insurance as of December 31<sup>st</sup>, 2015. Under the amended IFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of IFRS 4. Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities connected with insurance relative to the total carrying amount of all of its liabilities is greater than 90%, or less than or equal to 90% but greater than 80% and the insurer does not engage in a significant activity unconnected with insurance. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the entity's activities during the annual period that ended on that date.

As at December 31<sup>st</sup>, 2015, the Group's total carrying amount of liabilities connected with insurance amounted to €2,762 million represented 89.8% of its total liabilities of €3,076 million, and no significant activity within the Group's activity is unconnected to the provision of insurance. No change in the activities of the Group occurred subsequently that would have required a reassessment.

The Group is specialized in trade-related insurance solutions, its core activity being the credit insurance business. In 2015, the €2,031 million consolidated turnover consisted in:

- €1,767 million (87% of total turnover) gross earned insurance premiums, corresponding to credit insurance, bonding cover and insurance against fraud;
- €264 million (13% of total turnover) service revenues, which are mostly insurance premium-related: monitoring of credit risk and collection of unpaid receivables for credit insurance policyholders and services related to the bonding cover.

As a consequence, no significant activity in the Group is unrelated to insurance.

The following table provides an overview of the fair value as at December 31<sup>st</sup>, 2019 and the amount of change in the fair value during the reporting period, separately for:

- financial assets that meet the SPPI criterion i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis;
- all other financial assets.

## Financial assets under IFRS 9 classification rules

in € thousands	Financial assets that meet the SPPI criterion <sup>(1)</sup>		All other financial assets	
	Fair value at December 31, 2019	Change in fair value during the reporting period	Fair value at December 31, 2019	Change in fair value during the reporting period
<b>Cash and cash equivalents</b>	<b>+178 335</b>	<b>-10 716</b>	-	-
<b>Debt securities</b>	<b>+1 512 309</b>	<b>-31 400</b>	<b>+182 522</b>	<b>+48 886</b>
Government bonds	+470 665	+51 264	-54	-61
Covered bonds	+342 592	+24 017	-0	-0
Corporate bonds	+479 716	-19 317	+16 026	-3 775
Asset-/Mortgage-backed securities	-	-2 714	-	-2 535
Other debt securities <sup>(2)</sup>	+219 336	-84 649	+166 549	+55 257
<b>Subtotal</b>	<b>+1 690 644</b>	<b>-42 116</b>	<b>+182 522</b>	<b>+48 886</b>
<b>Equity securities</b>	-	-	<b>+426 267</b>	<b>+87 817</b>
<b>Derivative financial instruments</b>	-	-	<b>+12 365</b>	<b>+4 431</b>
<b>Other <sup>(3)</sup></b>	<b>+213 296</b>	<b>-12 933</b>	-	-
Receivables in IFRS 9 scope	+213 296	-12 933	-	-
Miscellaneous	-	-	-	-
<b>TOTAL</b>	<b>+1 903 940</b>	<b>-55 049</b>	<b>+621 153</b>	<b>+141 133</b>

<sup>(1)</sup> excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis

<sup>(2)</sup> mainly includes loans and advances to banks and customers, and investments in funds

<sup>(3)</sup> mainly includes receivables not connected to insurance activity nor cash pooling

The following table provides information about the credit risk exposures for financial assets with contractual terms that meet the SPPI criterion. It shows the carrying amounts applying IAS 39 (in the case of financial assets measured at amortized cost, before adjusting for any impairment allowances):

### Carrying amounts of financial assets that meet the SPPI<sup>(1)</sup> criterion by rating

Carrying amounts at December 31, 2019 in € thousands	Cash and cash equivalents	Government bonds	Covered bonds	Corporate bonds	Other debt securities <sup>(2)</sup>	Other <sup>(3)</sup>
<b>Rated, investment grade</b>	-	<b>455 345</b>	<b>342 592</b>	<b>455 631</b>	<b>225 713</b>	-
AAA	-	77 992	223 822	16 105	-	-
AA	-	175 576	110 123	58 528	55 869	-
A	-	105 773	8 647	163 979	161 369	-
BBB	-	96 005	-	217 020	8 475	-
<b>Rated, non-investment grade</b>	-	<b>8 633</b>	-	<b>7 929</b>	<b>5 735</b>	-
<b>Not rated</b>	<b>178 335</b>	<b>6 687</b>	-	<b>16 156</b>	<b>12 112</b>	<b>213 296</b>
<b>TOTAL</b>	<b>178 335</b>	<b>470 665</b>	<b>342 592</b>	<b>479 716</b>	<b>219 336</b>	<b>213 296</b>

<sup>(1)</sup> excluding any financial asset that meets the definition of held for trading in IFRS 9, or that is managed and whose performance is evaluated on a fair value basis

<sup>(2)</sup> mainly includes loans and advances to banks and customers, and investments in funds

<sup>(3)</sup> mainly includes receivables not connected to insurance activity nor cash pooling

The fair values of financial assets included in the table above that are non-investment grade and, thus, do not have low credit risk as at December 31<sup>st</sup>, 2019 approximately equal the respective carrying amounts. The same also applies to non-rated financial assets.

The publicly available IFRS 9 information disclosed by some subsidiaries that already apply IFRS 9 is not material from the Group's perspective. Furthermore, the vast majority of the financial instruments of these subsidiaries are financial assets for unit-linked contracts that are recorded at fair value through profit or loss under IAS 39 as well as under IFRS 9.

To the extent they qualify, the Group's investments in associates and joint ventures that are insurance entities have also applied the temporary exemption of applying IFRS 9. The entities underlying all other investments in associates and joint ventures have already adopted IFRS 9 as of January 1<sup>st</sup>, 2018. The impact of adopting or deferring the application of IFRS 9 for the investments in associates or joint ventures is not material for the Group.

## 2.3 Consolidation scope

The entity Euler Hermes World Agency, owned by Euler Hermes Group, was purchased by Euler Hermes France and was included for the first time in the consolidated financial statements during the first quarter of 2019. As at April 1<sup>st</sup> 2019, Euler Hermes World Agency merged into Euler Hermes France.

A new insurance branch, Euler Hermes SA Shanghai Representative Office, was founded and was included for the first time in the consolidated financial statements during the first quarter of 2019.

## 2.4 List of consolidated companies

### Belgian companies

	Consolidation Method	December 31, 2019		December 31, 2018	
		% control	% interest	% control	% interest
<b>Euler Hermes SA (NV)</b> Avenue des Arts, Kunstlaan 56 - 1000 Bruxelles - RC Bruxelles : 45 8033	Full	Parent company		Parent company	
<b>Euler Hermes Services Belgium SA (NV)</b> Avenue des Arts, Kunstlaan 56 - 1000 Bruxelles - RC Bruxelles : 45 8033	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Patrimonia</b> 56, avenue des Arts, A - 1000 Bruxelles	Full	65,00	65,00	65,00	65,00
<b>Euler Hermes South Express SA</b> Avenue du Port 86C, Box 204 - B - 1000 Bruxelles	Full	51,00	51,00	51,00	51,00

**Full** : Full Integration ; **Proportional** : Proportional Integration ; **Equity** : Equity Method Accounting ; **NC** : Not consolidated

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



## Foreign companies

	Country	Consolidation Method	December 31, 2019		December 31, 2018	
			% control	% interest	% control	% interest
<b>Euler Hermes Australia Pty Ltd</b> Level 9, Forecourt Building, 2 Market Street Sydney NSW 2000	Australia	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Serviços de Gestão de Riscos Ltda</b> Av. Paulista, 2.421, 3º and. - Jardim Paulista - São Paulo-SP CEP 01311-300	Brazil	Full	55,22	55,22	55,22	55,22
<b>Euler Hermes Seguros de Crédito SA</b> Av. Paulista, 2.421, 3º and. - Jardim Paulista - São Paulo-SP CEP 01311-300	Brazil	Full	55,22	55,22	55,22	55,22
<b>Euler Hermes Services Bulgaria</b> 82 Patriarch Evtimii Blvd. - 1463 Sofia	Bulgaria	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes information Consulting (Shanghai) Co., Ltd</b> Unit 2103, Taiping Finance Tower, 488 Middle Yincheng Road, Pudong New Area, Shanghai, 200120, PRC	China	Full	100,00	100,00	100,00	100,00
<b>CPPIIC Euler Hermes Insurance Sales Co., Ltd</b> Taiping Finance Tower, No. 488 Middle Yincheng, Pudong New Area, Shanghai, 200120, PRC	China	Equity	50,00	49,00	50,00	49,00
<b>Euler Hermes Service, Česká republika, s.r.o.</b> Molakova 576/11, 186 00 Prague 8	Czech Republic	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services SAS</b> 1, place des Saisons - 92048 Paris-La-Défense Cedex N°Siren : 414 960 377	France	Full	100,00	100,00	100,00	100,00
<b>Bilan Services SNC</b> 25, boulevard des Bouvets - 92000 Nanterre N°Siren : 333 192 631	France	Full	50,00	50,00	50,00	50,00
<b>Euler Hermes Asset Management SA</b> 1, place des Saisons - 92048 Paris-La-Défense Cedex N°Siren : 422 728 956	France	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Crédit France</b> 1, place des Saisons - 92048 Paris-La-Défense Cedex N°Siren : 388 236 853	France	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Recouvrement France</b> 1, place des Saisons - 92048 Paris-La-Défense Cedex N°Siren : 388 238 026	France	Full	100,00	100,00	100,00	100,00
<b>Gie Euler Hermes SFAC Services</b> 1, place des Saisons - 92048 Paris-La-Défense Cedex N° Siren : 393 302 708	France	Full	100,00	100,00	100,00	100,00
<b>Financière Callisto</b> 1, place des Saisons - 92048 Paris-La-Défense Cedex N° Siren : 503 326 514	France	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Real Estate</b> 87 rue Richelieu 75002 Paris N° Siren : 488 480 567	France	Full	60,00	60,00	60,00	60,00
<b>EH 39° Ouest</b> 1, place des Saisons - 92048 Paris-La-Défense Cedex N° ISIN : FR0013295482	France	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Emporiki Services Ltd</b> 16 Laodikias Street - 1-3 Nymfeou Street - 115 28 Athènes	Grèce	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Hong Kong Services Limited</b> Suites 403-11, 4/F, Cityplaza 4 - 12 Taikoo Wen Road - Taikoo Shing, Hong Kong	Hong-Kong	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services India Private Limited</b> 4th Floor, Voltas House - 23, J N Heredia Marg - Ballard Estate - Mumbai 400 001	India	Full	99,99	99,99	99,99	99,99
<b>Euler Hermes Service Ireland Ltd</b> Allianz House, Elmpark, Merrion Road, Dublin 4	Ireland	Full	100,00	100,00	100,00	100,00
<b>Israël Credit Insurance Company Ltd (ICIC)</b> 2, Shenkar Street - 68010 Israël - Tel Aviv	Israel	Equity	50,00	50,00	50,00	50,00

Full : Full Integration ; **Proportional** : Proportional Integration ; **Equity** : Equity Method Accounting ; **NC** : Not consolidated

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

	Country	Consolidation Method	December 31, 2019		December 31, 2018	
			% control	% interest	% control	% interest
<b>Euler Hermes Services Italia SRL</b> Via Raffaello Matarazzo,19 - 00139 Rome	Italy	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Intermediary Agency S.r.l.</b> Viale Forlanini n. 21 - Milano	Italy	Full	100,00	100,00	0,00	0,00
<b>Euler Hermes Japan Services Ltd</b> Kyobashi Nisshoku Bldg 7F - 08-07, Kyobashi 1-chome, Chuo-Ku - Tokyo 104-0031	Japan	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Korea Non-life Broker Company Limited</b> 51 JongRo-gu, JongRo - Seoul	Korea	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Luxembourg Holding SARL</b> 37, rue d'Anvers - L.1130 Luxembourg	Luxemburg	Full	55,22	55,22	55,22	55,22
<b>Euler Hermes Acmar</b> 37, boulevard Abdellatif Ben Kaddour - 20050 Casablanca	Morocco	Full	55,00	55,00	55,00	55,00
<b>Euler Hermes Acmar Services</b> 37, boulevard Abdellatif Ben Kaddour - 20050 Casablanca	Morocco	Full	55,00	55,00	55,00	55,00
<b>Euler Hermes Services BV</b> Pettelaarpark 20 - Postbus 70571 - NL-5216 PD's-Hertogenbosch	Netherlands	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes New Zealand Limited</b> Level 1, Lumley Center, 152 Fanshawe Street, Auckland 1010	New Zealand	Full	100,00	100,00	100,00	100,00
<b>Towarzystwo Ubezpieczen Euler Hermes SA</b> ul. Al. Jerozolimskie 98, 00-807 Warsaw	Poland	Full	100,00	100,00	100,00	100,00
<b>Companhia de Seguro de Creditos SA (COSEC)</b> Avenida de Republica, n° 58 - 1069-057 Lisboa	Portugal	Equity	50,00	50,00	50,00	50,00
<b>ООо Euler Hermes Credit Management</b> ul. Krymskij Val3, 2, Office 210 - 119049 Moscou	Russia	Full	100,00	100,00	100,00	100,00
<b>LLC "IC" Euler Hermes RU</b> 8 Office C08, 4-th Dobryninskiy per.8 - 119049 Moscou	Russia	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Singapore Services Pte Ltd.</b> 12 Marina View - # 14-01 Asia Square Tower 2 - Singapore 018961	Singapore	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services South Africa LTD</b> The Firs, 2nd Floor, 32A Cradock Avenue, Rosebank, 2196	South Africa	Full	100,00	100,00	100,00	100,00
<b>Solunion Compañía Internacional de Seguros y Reaseguros SA</b> Avenida General Peron, 40 - 28020 Madrid	Spain	Equity	28,27	28,27	28,27	28,27
<b>Euler Hermes Service AB</b> Klara Norra Kyrkogata 29 - SE 101 34 Stockholm	Sweden	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services Schweiz AG</b> Richtplatz 1 - Postfach CH-8304 Wallisellen	Switzerland	Full	99,50	99,50	99,50	99,50
<b>Euler Hermes Taiwan Services</b> 15F, NO.170, Tun Hwa N.R.D. - 10548 Taipai	Taiwan	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services Tunisia</b> 6, rue Ibn Hazm, Cité Jardins, Le Belvédère - 1002 Tunis	Tunisia	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Risk Yönetimi</b> Büyükdere caddesi Maya Akar Center B Blok Kat:7 34394 Esentepe, Istanbul	Turkey	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Sigorta Anonim Sirketi</b> Büyükdere caddesi Maya Akar Center B Blok Kat:7 34394 Esentepe, Istanbul	Turkey	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services GCC Limited</b> Dubai International Financial Centre - Dubai	United Arab Emirates	Full	100,00	100,00	100,00	100,00
<b>Euler Hermes Services UK Ltd</b> 01, Canada Square - London E14 5DX	United Kingdom	Full	100,00	100,00	100,00	100,00

Full : Full Integration ; Proportional : Proportional Integration ; Equity : Equity Method Accounting ; NC : Not consolidated

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

## 2.5 Consolidation principles and methods

### Business combinations

Business combinations are accounted for using the acquisition method. This method consists in identifying the acquirer, determining the acquisition date, which is the date on which control is transferred to the Group, recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the investee; and recognising and measuring goodwill or a gain from a bargain purchase. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recorded amount of any non-controlling interests in the acquired entity; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquired entity; less
- the net recorded amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recorded immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recorded in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not measured again and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recorded in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquired entity's employees (acquired entity's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquired's awards and the extent to which the replacement awards relate to past and/or future service.

### Acquisitions of non-controlling interests

Dilution and accretion transactions in entities controlled by the Group are recognized as transactions in equity, as they are transactions performed by the owners of the company acting in this capacity. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the subsidiary's net assets.

### Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date at which control starts until the date at which control ceases.

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

- Euler Hermes Real Estate (60%-owned);
- Euler Hermes Patrimonia (65%-owned);
- Euler Hermes South Express SA (51%-owned);
- Euler Hermes 39 Ouest (100%-owned).

### Loss of control

At the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recorded in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date when control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

## **Investments in associates and jointly controlled entities (equity-accounted investments)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method. Under the equity method, on initial recognition the investment in an associate or a joint venture is recorded at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investments, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control begins until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investment, the carrying amount of the investment (including any long-term interests that part form thereof) is reduced to zero, and the recognition of further losses is discontinued except if the Group has an obligation to participate in losses or has made payments on behalf of the investee.

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

- Companhia de Seguro de Creditos SA (COSEC);
- Israel Credit Insurance Company Ltd (ICIC);
- Solunion Compañía Internacional de Seguros y Reaseguros SA;
- CPPIC Euler Hermes Insurance Sales Co., Ltd.

## **Jointly controlled operations**

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operation. The consolidated financial statements include the assets that the Group controls, the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

At the end of December 2019, Euler Hermes Group does not hold any jointly controlled operation.

## **2.6 Eliminations on consolidation**

Income and expenses arising from intra-group transactions are eliminated during the preparation of the consolidated financial statements. Income and expenses arising from transactions with joint ventures are eliminated to the extent of the Group's share in the company concerned.

## **2.7 Financial year and year-end dates**

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

## **2.8 Use of estimates**

The production of the consolidated financial statements of the Group is based on estimates for a part of the assets and liabilities. Management is called upon to review these estimates in the event of changes that may alter the basis on which they have been established or due to the consideration of new information or accrued experience.

The estimates concerning technical provisions are also detailed in Note 34 "Risk Management".

The table below summarizes methodology used to assess estimates for the main elements of the consolidated statement of financial position:

Estimate	Communicated Information
Note 3 Impairment of goodwill	<p>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).</p> <p>The fair value of the Cash Generating Unit's is based on assumptions of capital costs, long-term growth rate and loss ratio &amp; standard retention rates used in the calculation of the terminal values.</p>
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 16 Employee benefits	The related commitments are measured in accordance with IAS 19 Revised and are reviewed yearly by independent actuaries. The commitment is recognized in the balance sheet using the projected unit credit method, based on the Group actuarial assumptions.
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	<p>This reserve represents the estimate of potential recoveries on settled claims by a statistical calculation based on the evolution of salvages &amp; recoveries by year of attachment on previous exercises.</p> <p>They take into consideration a provision for administration charges determined in accordance with actual observed expenses.</p>
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	<p>IBNR reserves are established to recognize the estimated cost of losses that have occurred but where the Group has not yet been notified.</p> <p>The Group relies on its past experience, adjusted for current trends and any other relevant factors to estimate IBNR reserves.</p> <p>IBNR are estimates based on actuarial and statistical projections of the expected cost of ultimate settlement and administration of claims. The analyses are based on facts and circumstances known at the time, predictions of future events, and other economic factors.</p> <p>IBNR reserves are reviewed and revised periodically as additional information becomes available and actual claims are reported.</p>
Note 29 Share-based compensation plans	The fair value of the liabilities resulting from the Allianz and Euler Hermes Group RSU (Restricted Stocks Units) plans is reassessed at each balance sheet date based on the Allianz share price and Euler Hermes Group share price, until expiry of the obligation. The fair value from RSU is calculated using the Cox-Ross-Rubinstein binomial valuation model.

## 2.9 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 in the absence of significant fluctuations.

For 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 recorded 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.

For each closing, the consolidated 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 consolidated 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 foreign exchange translation arising from shareholders' equity is recorded within shareholders' equity under "Foreign exchange translation", while the portion relating to third parties is recorded under "Non-controlling interests".

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

in € vs currency	December 31, 2019		December 31, 2018	
	Closing	Average	Closing	Average
British pound	0,8473	0,8773	0,8976	0,8847
Swedish krona	10,5075	10,5876	10,1348	10,2617
Brazilian real	4,5155	4,4140	4,4307	4,3089
Hong Kong dollar	8,7466	8,7712	8,9501	9,2550
Swiss franc	1,0870	1,1125	1,1269	1,1550
South African rand	15,6961	16,1708	16,4447	15,6152
Polish Zloty	4,2513	4,2968	4,2946	4,2611

## 2.10 Goodwill and other intangible assets

### Goodwill

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

For business combinations made with effect from March 31, 1998 goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see § "Business combinations" within Note 2.5 "Consolidation principles and methods".

The values of the identifiable assets and liabilities acquired may be adjusted within a period of 12 months beginning on the acquisition date.

Goodwill is recorded at acquisition cost, less any accumulated impairment write-down. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

With effect from January 1st, 2004, goodwill is no longer amortized in accordance with IFRS 3, but instead is subject to impairment testing, at least once a year or whenever an indication of loss in value occurs (see Note 2.11 "Impairment").

For the purposes of impairment testing, goodwill is allocated to Cash Generating Units or to groups of Cash Generating Units (See the impairment test procedure in Note 2.11 "Impairment").

For each closing, the carrying amount of the Cash Generating Units (or groups of Cash Generating Units) to which the goodwill relates is compared with its recoverable value, which represents the highest value between the fair value of the Cash Generating Units less any selling costs and its value in use. The value in use is defined as the present value of future cash flows of the concerned subsidiary as identified in the business plans including the terminal value. Details of the method used to calculate the value in use are presented in Note 3 "Goodwill".

## Other intangible assets

An intangible asset is a non-monetary asset that has no physical substance and which has to be identifiable as a separate asset, owned and controlled and held to provide future economic benefits.

An asset can be recognised as an intangible asset 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 recorded at cost less any accumulated amortization 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 recorded as an expense in the consolidated income statement when incurred.

Intangible assets with a defined useful life are amortized on a straight-line basis over their estimated useful lives. The amortization charge is recorded in the consolidated income statement.

Under this heading, the Group records software that is developed in-house or acquired externally and investment contract portfolios registered in application of IFRS 4.

Software developed in-house or acquired externally are amortized over 5 years.

Costs relating to the development phase are capitalised provided that the entity can demonstrate the following: 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.

The right-of-use assets related to leased property and equipment are depreciated generally over the lease term.

## 2.11 Impairment

### Goodwill

In accordance with IFRS 3, goodwill is not amortized but is subject to impairment tests which are performed on a systematic annual basis and as soon as there is any indication of loss in value. Impairment tests are performed for each Cash Generating Unit (CGU) or group of CGUs to which goodwill is related. The CGUs correspond to some of the main subsidiaries or branches of regions presented in the segment analysis. An impairment loss of goodwill is recognised when the highest 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 (net asset including goodwill).

The main assumptions used to determine the value in use are as follows: indefinite renewal of policies, perpetual growth rate of 1% depending on the CGU concerned, and a cost of capital between 4.69% and 6.16% depending on the CGU. With effect from 2006, the cost of capital 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).

Furthermore, since the Group has organized its reinsurance activities with the settlement of a Group reinsurance region, the scope of the Cash Generating Units has been extended to include internal reinsurance activities contracted by the CGU with this Group reinsurance region, as well as the share of related shareholders' equity.

The calculation parameters adopted as at December 31, 2019 are detailed per CGU in Note 3 "Goodwill".

The impairment loss recorded in the consolidated income statement is allocated in priority to the goodwill related to the Cash Generating Unit, and is then allocated, for the outstanding part, on a pro rata basis to the other assets of the Cash Generating Unit. Goodwill impairment loss is never written back.

## Other intangible assets

All other intangible assets are subject to an impairment test if there is any indication of loss in value. Any impairment loss 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 loss. 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 amortization, 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 the purpose of 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 recorded in the balance sheet under "Investments".

The Group's operating property is included within property, plant and equipment.

## Recognition and measurement

The 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 IAS 16 and less any accumulated depreciation calculated in accordance with IAS 16 and any impairment relating to the application of IAS 36.

The 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 recorded. 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 an asset at the end of its useful life, net of any costs relating to its disposal.

For each category of property asset, and in addition to land, the Group has identified six significant components, 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 asset, 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.

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

Properties are valued periodically by independent experts. The fair value of buildings is estimated based on market prices adjusted, where applicable to take into account the nature, location or other specific features of the building concerned. The fair value is presented in the Note 5 "Investment and operating property".

## Impairment

### Investment property

A provision for depreciation of investment property is recorded to reduce the value of the property to the higher of the value in use and the expert valuation decreased by the costs of the sale. This provision may be written back through the consolidated 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 depreciation is recorded in order to reduce the value of the operating property to the higher of the value in use and the expert valuation decreased by the costs of the sale. In the event of an increase in value, this depreciation may be written back through the consolidated income statement.



## 2.13 Other property, plant and equipment

Other property, plant and equipment are recorded 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 consolidated 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.

The Group's 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 profit and loss.

### 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 recorded 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 recorded in the consolidated 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 (including the actuarial amortization) is recorded as "available-for-sale assets", with a corresponding entry in the revaluation reserve, without any impact on the consolidated income statement.

#### Impairment

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

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

- 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 recorded in the consolidated 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 recorded in the consolidated income statement.

Any relevant decrease in the fair value of a stock already impaired is accounted through the consolidated income statement.

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

For debt instruments, impairment is accounted through net income only in case of a recorded risk of the issuer's default.

## Disposal

In the event of disposal, the amounts recorded in the revaluation reserve are recorded in the consolidated 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, held-to-maturity assets are recorded 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 amortized cost using the effective interest rate method. Premiums and discounts are included in the amortized cost calculation and are recorded in the consolidated income statement on an actuarial basis over the term of the financial asset.

## Assets held for trading purposes (trading assets)

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

- acquired or held mainly 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 instrument (except for a derivative that is a designated and effective hedging instrument).

### Initial recognition

Assets held for trading purposes are recorded 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 recorded in the consolidated income statement for the period.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market, except for instruments classified at fair value through the consolidated 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 amortized cost using the effective interest rate method. Financial income for the period is recorded by applying the effective interest rate to the amortized cost of the transaction.

### Impairment

When objective evidence of impairment exists (e.g. deterioration in the financial situation of the issuers), the amount of the loss is equal to the difference between the asset's carrying amount 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, which has the following three features: (a) its value varies according to an interest rate, a financial instrument price, a specific commodity price, an exchange rate, a price, rate or credit index, a credit rating or another underlying variable; (b) it does not require any net initial investment or any net initial investment which is less than what 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 consolidated 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.

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

- the hedging instrument is recorded at fair value and any changes are recorded through the consolidated income statement;
- the carrying amount of the hedged item is adjusted for any gain or loss on the hedged item attributable to the risk being hedged, the change being recorded through the consolidated 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 recorded 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 recorded through shareholders' equity. The ineffective portion of the hedge is recorded immediately through the consolidated income statement.

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

Within the Group, derivatives correspond mainly to hedging instruments linked to the share-based compensation plans included in the Allianz group Equity Incentive (see Note 29 "Share-based compensation plans").

## 2.15 Assets held for sale

Assets are classified as "held for sale" when they are available for immediate sale in their present condition, their sale is highly probable, management is committed to a plan to sell the asset and an active program to locate a buyer and complete the plan has been initiated. In accordance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", assets or group of assets held for sale are presented separately on the face of the statement of financial position, at the lower of their carrying amount and fair value less costs to sell.

This item includes:

- non-current assets held for sale;
- groups of assets held for sale;
- the total of current and non-current assets related to a business or geographical segment (i.e. to a discontinued operation) itself held for sale.

## 2.16 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.

## 2.17 Deferred acquisition costs

Deferred acquisition costs 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 deferred acquisition costs is included in acquisition expense reported in the consolidated income statement.

## 2.18 Current and deferred tax

Tax expense includes current and deferred tax. Current tax and deferred tax are recorded in profit or loss except when it relates to a business combination, or items recorded directly in equity or in other comprehensive income.

Current tax is (i) the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and (ii) any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax assets or liabilities are calculated for temporary differences between the tax bases and the financial statement carrying amounts, including differences from consolidation, unused tax loss carry forwards, and unused tax credits. Measurement is based on enacted or substantively enacted tax rates and tax rules. Assessments as to the recoverability of deferred tax assets require the use of judgment regarding assumptions related to estimated future taxable profits. This includes the character and amounts of taxable future profits, the periods in which those profits are expected to occur, and the availability of tax planning opportunities. The Group recognizes a valuation allowance for deferred tax assets when it is unlikely that a corresponding amount of future taxable profit will be available against which the deductible temporary differences, tax loss carry forwards and tax credits can be utilized

The analysis and forecasting required in this process are performed for individual jurisdictions by qualified local tax and financial professionals. Given the potential significance surrounding the underlying estimates and assumptions, group wide policies and procedures have been designed to ensure consistency and reliability around the recoverability assessment process. Forecast operating results are based upon approved business plans, which are themselves subject to a well defined process of control. As a matter of policy, especially strong evidence supporting the recognition of deferred tax assets is required if an entity has suffered a loss in either the current or the preceding period. Recognition and recoverability of all significant deferred tax assets if any are reviewed by tax professionals at Group level.

## 2.19 Other receivables and other 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.

## 2.20 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 Group's cash management procedures.

## 2.21 Provisions for risks and charges

### Provisions

Provisions for risks and charges essentially comprise provisions for retirement commitments (see Note 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 obligation amount. 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.

Group companies may be concerned by disputes inherent in the exercise of their normal business.

## 2.22 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 Group 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 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, Scandinavia and the United Kingdom.

The related commitments are measured in accordance with IAS 19 Revised. The commitment is recorded 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.

Re-measurement results of the net defined-benefit assets/liabilities due to changes in assumptions and to experience adjustments are recognised in other comprehensive income without subsequent reclassification.

Past service cost denotes the change 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, or the change to, or the reduction of a post-employment benefit plan. 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 Group also accrues commitments relating to other long-term benefits (long-service awards, etc.) granted to employees. The provision corresponds to the present value of the commitment and is calculated annually by the Group.

## 2.23 Share-based payments transactions

The grant-date fair value of share-based payment awards granted to employees is recorded as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards.

The amount recorded as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, so that the amount ultimately recorded as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Allianz have put in place share-based compensation plans for the benefit of executives of the Group. When exercising their rights, these executives receive shareholders' equity instruments (for RSUs, Allianz can choose to remunerate in cash or equity instruments).

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

## 2.24 Insurance and reinsurance contracts

Contracts considered as insurance or reinsurance contracts are divided, 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 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. In the same way, the Group did not identify service contracts falling within the scope of IAS 18.

### 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 of the following 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 party of the contract). Credit insurance contracts are covered by IFRS 4 (section B18 (g)).

### 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. Thus, the Group continued to apply the standards defined by the Belgian Royal Decree of November 17, 1994 related to the consolidation and combination rules from companies regulated by the Belgian 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 the Belgian Royal Decree of November 17, 1994 of the Belgian Accounting Standards Board were retained for the measurement of insurance contracts.

### Allocation of expenses relating to contracts by functions

Expenses relating to insurance contracts are initially recorded according to their nature and then allocated by function in the consolidated income statement headings by means of allocation 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 consolidated 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 recorded in turnover stem from the guarantees given to policyholders to cover their trade receivables that arise during the same period as that for which the premium is paid. Given settlement delays, the lag between the triggering event, i.e. bankruptcy of the debtor, and notification of the claim, there is also a lag between recording the premiums and the related claims. This lag is taken into account through the recognition of provisions for claims incurred but not reported (IBNR).

### Provisions for unearned premiums

A provision for unearned premiums, gross of commissions and expenses, is established contract by contract, on a straight-line basis, 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 received recoveries;
- 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 Note 34 “Risk Management”.

## Estimated recoveries

Recoveries are the result of actions taken by the Group 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 to 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 are 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.

## Liability adequacy test

For each closing, insurance contract liabilities net of related assets (acquisition costs capitalised and portfolio securities) are subject to a test for the liability adequacy test.

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 cedant.

### Reinsurance

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

Cash deposits received from reinsurers are recognised in liabilities arising from ceded reinsurance transactions. Receivables due from reinsurers are subject to impairment write-downs if the ceded company will not receive the entire amount due at the end of the contract.

## 2.25 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 Note 2.14 “Financial instruments – Derivatives”), borrowings and other financial liabilities are recorded originally at fair value less any related transaction costs, and are subsequently measured at amortized 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”.

## 2.26 Income from ordinary activities

Income from ordinary activities can comprise items measured and recorded 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 corresponds 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.

Service 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 recorded in accordance with IAS 39, IAS 17 or IAS 18 depending on its type.

### Investment income net of management expense

This income is mainly composed of the following categories:

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

### Capital gains and losses on disposals of investments

Capital gains and losses on disposals of securities or property are recorded in the consolidated income statement. 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 consolidated 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.

## 2.27 Insurance services expenses

Insurance services expenses include 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 Note 2.24 "Insurance and reinsurance contracts – Measurement of insurance contracts".

## 2.28 Net outwards reinsurance income or expense

This heading comprises the share of ceded reinsurance 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 Note 2.24 "Insurance and reinsurance contracts – Reinsurance contracts".

## **2.29 Administration expense and contract acquisition expenses**

Administration expenses mainly comprise salary costs and costs relating to the IT systems used in the administration of the contracts.

Contract acquisition expenses comprise primarily wage costs related to acquisition of contracts, brokerage commissions, fees for opening files and spending on commercial networks.

## **2.30 Other ordinary operating income and expense**

Other ordinary operating income and expense correspond mainly to the Group's service revenue and expense.

## **2.31 Other operating income and expense**

These revenue and expense items arise from a major event that occurred during the accounting period and was such that it would have distorted the interpretation of the Group's performance. Therefore, they consist of very few items, that are unusual in nature, occur infrequently, and are for significant amounts.

## **2.32 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.



## Note 3 Goodwill

In accordance with IFRS 3, goodwill is not amortized but is subject to impairment tests which are performed on a systematic annual basis and as soon as there is any indication of loss in value.

(in € thousand)	December 31, 2019					December 31, 2018
	Italy	United Kingdom	Netherland	Other	Total	Total
<b>Opening balance</b>						
Gross value	6 229	55 578	5 567	6 722	74 096	74 760
Impairment losses	(409)	(8 071)	-	-	(8 480)	(8 565)
<b>Carrying amount</b>	<b>5 820</b>	<b>47 507</b>	<b>5 567</b>	<b>6 722</b>	<b>65 616</b>	<b>66 194</b>
<b>Change during the year</b>						
<b>Opening carrying amount</b>	<b>5 820</b>	<b>47 507</b>	<b>5 567</b>	<b>6 722</b>	<b>65 616</b>	<b>66 194</b>
Changes in gross value	-	-	-	-	-	-
Outgoing entities & Held for sale transfer	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Foreign currency translation adjustments	-	2 815	-	121	2 936	(578)
Impairment losses	-	-	-	-	-	-
<b>Closing carrying amount</b>	<b>5 820</b>	<b>50 322</b>	<b>5 567</b>	<b>6 843</b>	<b>68 552</b>	<b>65 616</b>
<b>Closing Balance</b>						
Gross value	6 229	58 848	5 567	6 843	77 487	74 096
Impairment losses	(409)	(8 526)	-	-	(8 935)	(8 480)
<b>Carrying amount</b>	<b>5 820</b>	<b>50 322</b>	<b>5 567</b>	<b>6 843</b>	<b>68 552</b>	<b>65 616</b>

At year-end 2019, changes in goodwill are mainly due to the depreciation of the British pound against the euro.

The cash generating units (CGU) that make up the column "other countries" are tested individually. The total amounting to € 6,843 thousand includes goodwill in Asia-Pacific for € 3,194 thousand, goodwill in the Northern Europe Region for € 3,534 thousand (CGU Czech Republic) and goodwill in the Mediterranean sector for €116 thousand (CGU Greece).

### Method of impairment tests

In accordance with IAS 36, the Group performs impairment tests of the goodwill by comparing the value in use of the cash generating units (CGU) including goodwill and the carrying value (contribution of Group consolidated net asset including goodwill).

The value in use is the actual value of future cash flows as presented in the business plan of the concerned entity including the terminal value.

The main assumptions for the calculation of the value in use are the long-term growth rate, which is defined by CGU, and the cost of capital, which is defined by geographical area. The model is built on a 3-year forecast prepared by the CGU and validated by Group management, plus a final year built on targeted combined ratio and retention rate.

Moreover, with the creation of a Group reinsurance region, the scope of the CGU has been extended to include internal reinsurance activities occurring between the CGU and the Group reinsurance region, and consequently to include also a part of the Group reinsurance region's contribution to Group consolidated net asset.

The assumptions used to calculate the CGU's valuations are presented in the table below.

## Results of impairment tests

	Italy	United-Kingdom	Netherlands
Cost of capital (net of tax)	6,16%	5,57%	4,69%
<i>of which, risk-free rate</i>	1,41%	0,82%	-0,05%
<i>of which, risk premium (AZ <math>\beta</math> = 0.949)</i>	4,75%	4,75%	4,75%
Tax rate	24,00%	19,00%	25,00%
Gross combined ratio	80,00%	86,00%	80,00%
Target retention rate	29,09%	23,79%	25,64%
Perpetual growth	1,0%	1,0%	1,0%
Value in use (in € million)	610,1	360,6	148,0
Contribution to group consolidated net asset (in € million)	301,0	245,3	61,3
Surplus (or deficit)	309,1	115,3	86,7

## Sensitivity of impairment tests

Sensitivity analyses were performed on the impairment tests, assuming deviation in some calculation parameters:

- sensitivity of long-term growth: the impairment tests were performed using the same methodology, but assuming a -0.5 point decrease in the perpetual growth rate. For all CGUs, the result of this sensitivity test led to a value in use that was still higher than the carrying amount. These valuations support the fact that no additional goodwill impairment losses were recognised.
- sensitivity to cost of capital: the impairment tests were performed using the same methodology, but assuming a +0.5 point increase in the cost of capital. The result of this sensitivity test led to a value in use that was still higher than the carrying amount for all CGUs. These valuations support the fact that no additional goodwill impairment losses were recognised.
- sensitivity to gross combined ratio: the impairment tests were performed using the same methodology, but assuming a +3 point increase in the target gross combined ratio, of which +2 points on gross loss ratio and +1 point on gross cost ratio. The result of this sensitivity test led to a value in use that was still higher than the carrying amount for all CGUs. These valuations support the fact that no additional goodwill impairment losses were recognised.

## Break-even parameters

The following table presents, for each CGU, the change in each of the key parameters taken individually, where the estimated value in use breaks even with its contribution to Group consolidated net assets.

	Italy	United-Kingdom	Netherlands
Perpetual growth	-6,3%	-2,0%	-5,8%
Cost of capital	12,2%	8,2%	10,5%
Gross combined ratio	89,3%	88,8%	88,2%

## Note 4 Other intangible assets

(in € thousands)	December 31, 2019					December 31, 2018				
	Contract portfolio	IT development and software	Right-of-use assets	Other intangible assets	Total	Contract portfolio	IT development and software	Right-of-use assets	Other intangible assets	Total
<b>Opening balance</b>										
Gross value	6 425	264 369	-	16 254	287 048	6 436	260 085	-	16 324	282 845
Amortisation	(6 425)	(172 436)	-	(13 117)	(191 978)	(6 436)	(157 046)	-	(12 924)	(176 406)
<b>Carrying amount</b>	<b>-</b>	<b>91 933</b>	<b>-</b>	<b>3 137</b>	<b>95 070</b>	<b>-</b>	<b>103 039</b>	<b>-</b>	<b>3 400</b>	<b>106 439</b>
<b>Change during the year</b>										
<b>Opening carrying amount</b>	<b>-</b>	<b>91 933</b>	<b>-</b>	<b>3 137</b>	<b>95 070</b>	<b>-</b>	<b>103 039</b>	<b>-</b>	<b>3 400</b>	<b>106 439</b>
Acquisitions	-	18 006	100 999	-	119 005	-	15 305	-	-	15 305
Changes in consolidation scope	-	(11)	-	-	(11)	-	-	-	-	-
Disposals	(3)	(40)	(34 103)	-	(34 146)	(4)	(8 950)	-	-	(8 954)
Reclassifications	-	18	-	(5)	13	-	110	-	-	110
Foreign exchange differences	3	308	113	161	585	4	(31)	-	(33)	(60)
Net amortisation	-	(18 903)	(25 317)	(230)	(44 450)	-	(17 540)	-	(230)	(17 770)
<b>Closing carrying amount</b>	<b>-</b>	<b>91 311</b>	<b>204 744</b>	<b>3 063</b>	<b>299 118</b>	<b>-</b>	<b>91 933</b>	<b>-</b>	<b>3 137</b>	<b>95 070</b>
<b>Closing balance</b>										
Gross value	6 497	283 170	228 308	16 611	534 586	6 425	264 369	-	16 254	287 048
Amortisation	(6 497)	(191 859)	(23 564)	(13 548)	(235 468)	(6 425)	(172 436)	-	(13 117)	(191 978)
<b>Carrying amount</b>	<b>-</b>	<b>91 311</b>	<b>204 744</b>	<b>3 063</b>	<b>299 118</b>	<b>-</b>	<b>91 933</b>	<b>-</b>	<b>3 137</b>	<b>95 070</b>

In 2019, as in 2018, the increase in IT development and software results mainly from the capitalization of internally developed Group applications and purchased software for internal projects.

The main Group applications developments are:

- in 2019: Compass, MyEH, DataHub and NewIRP.
- In 2018: Broker Portal & Master Data Management, Omega (websites project), Galileo and IRP.

Depreciation both in 2019 and in 2018 is mainly related to internally developed software Galileo (Commercial) and Broker Portal & Master Data Management.

In addition, IFRS 16 brought significant changes in accounting requirements for lease accounting. Its implementation on January 1<sup>st</sup>, 2019, thus resulted in the recognition of right-of-use assets whose net book value was amounting to €204,744 thousand on December 31<sup>st</sup>, 2019 (see Note 23 "Leases").

## Note 5 Investment and operating property

(in € thousand)	December 31, 2019		December 31, 2018	
	Investment property	Operating property	Investment property	Operating property
<b>Balance at opening period</b>				
Gross value	103 294	27 592	103 294	27 554
Depreciation	(32 315)	(18 258)	(29 643)	(18 106)
<b>Carrying amount</b>	<b>70 979</b>	<b>9 334</b>	<b>73 651</b>	<b>9 448</b>
<b>Change during the year</b>				
Opening carrying amount	70 979	9 334	73 651	9 448
Acquisitions	27	932	-	47
Disposals	-	-	-	(35)
Changes in foreign currency translation adjustments	-	(6)	-	11
Net depreciation	(2 672)	(333)	(2 672)	(137)
<b>Closing carrying amount</b>	<b>68 334</b>	<b>9 927</b>	<b>70 979</b>	<b>9 334</b>
<b>Balance at the end of the period</b>				
Gross value	103 321	28 527	103 294	27 592
Depreciation	(34 987)	(18 600)	(32 315)	(18 258)
<b>Carrying amount</b>	<b>68 334</b>	<b>9 927</b>	<b>70 979</b>	<b>9 334</b>
<b>Fair value</b>	<b>236 809</b>	<b>22 740</b>	<b>300 800</b>	<b>22 531</b>

### Amount recorded in the income statement

Investment property	December 31, 2019	December 31, 2018
Rental revenues from investment property	10 114	10 177
Direct operating expenses relating to property	(3)	(3)

In 2019, as in 2018, the building located in rue Euler has been amortized for an amount of €1.7 million.

## 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 by 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, and the analysis of discounted cash flows and option valuation models.

### Classification by investment category

December 31, 2019						
(in € thousands)	Historical value	Revaluation reserve	Net carrying amount	Fair value	Listed	Non listed
Bonds	-	-	-	-	-	-
<b>Held-to-maturity assets</b>	-	-	-	-	-	-
Equities	370 167	56 105	426 272	426 267	1 715 139	149 524
Bonds	1 402 938	35 453	1 438 391	1 438 396		
<b>Available-for-sale assets</b>	<b>1 773 105</b>	<b>91 558</b>	<b>1 864 663</b>	<b>1 864 663</b>	<b>1 715 139</b>	<b>149 524</b>
<b>Loans, deposits and other financial investments</b>	<b>256 435</b>	-	<b>256 435</b>	<b>256 435</b>	-	-
<b>Total Financial investments (excluding investments in consolidated enterprise)</b>	<b>2 029 540</b>	<b>91 558</b>	<b>2 121 098</b>	<b>2 121 098</b>	<b>1 715 139</b>	<b>149 524</b>

December 31, 2018						
(in € thousands)	Historical value	Revaluation reserve	Net carrying amount	Fair value	Listed	Non listed
Bonds	-	-	-	-	-	-
<b>Held-to-maturity assets</b>	-	-	-	-	-	-
Equities	345 774	(7 254)	338 520	338 450	1 633 190	82 936
Bonds	1 366 392	11 283	1 377 675	1 377 676		
<b>Available-for-sale assets</b>	<b>1 712 166</b>	<b>4 029</b>	<b>1 716 195</b>	<b>1 716 126</b>	<b>1 633 190</b>	<b>82 936</b>
<b>Loans, deposits and other financial investments</b>	<b>298 055</b>	-	<b>298 055</b>	<b>299 663</b>	-	-
<b>Total Financial investments (excluding investments in consolidated enterprise)</b>	<b>2 010 221</b>	<b>4 029</b>	<b>2 014 250</b>	<b>2 015 789</b>	<b>1 633 190</b>	<b>82 936</b>

There was no significant impact of impairment on the Group portfolio as at December 31, 2019. The Group has no financial asset exposure in the form of dynamic treasury mutual funds or subprime investments, for example.

## Fair value hierarchy

### Available-for-sale assets

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

Level 3 is mainly composed of investments in listed and non-listed real estate funds, non-consolidated shares and Moroccan non-listed government bonds.

(in € thousands)	December 31, 2019		
	Level 1	Level 2	Level 3
Available-for-sale assets	1 712 346	-	152 317

(in € thousands)	December 31, 2018		
	Level 1	Level 2	Level 3
Available-for-sale assets	1 633 190	-	82 936

### Loans, deposits and other financial investments

The loans, deposits and other investments are valued at amortized cost. Their hierarchical ranking is mainly level 3, except for the non-listed German mortgage bonds classified in level 2 for €48 million.

### Movements during the year

(in € thousands)	December 31, 2019				December 31, 2018
	Held-to-maturity investments	Available-for-sale investments	Loans, deposits and other financial investments	Total	Total
<b>Opening carrying amount</b>	<b>0</b>	<b>1 716 195</b>	<b>298 055</b>	<b>2 014 250</b>	<b>2 094 604</b>
Increase in gross value	-	1 017 397	131 479	1 148 876	938 246
Decrease in gross value	-	(967 522)	(172 589)	(1 130 740)	(951 060)
Change in consolidation scope	-	-	64	(9 308)	451
Revaluation	-	88 816	-	88 816	(74 298)
Impairment	-	(333)	(2 522)	(2 855)	(204)
Foreign currency translation adjustments	-	14 811	1 450	16 262	13 789
Reclassifications	-	-	-	-	288
Other changes	-	(4 701)	498	(4 203)	(7 566)
<b>Closing carrying amount</b>	<b>0</b>	<b>1 864 663</b>	<b>256 435</b>	<b>2 121 098</b>	<b>2 014 250</b>

(in € thousands)	December 31, 2018			
	Held-to-maturity investments	Available-for-sale investments	Loans, deposits and other financial investments	Total
<b>Opening carrying amount</b>	<b>191</b>	<b>1 694 149</b>	<b>400 264</b>	<b>2 094 604</b>
Increase in gross value	-	897 861	40 836	938 246
Decrease in gross value	-	(806 050)	(145 009)	(951 060)
Change in consolidation scope	-	-	-	451
Revaluation	-	(74 298)	-	(74 298)
Impairment	-	-	(204)	(204)
Foreign currency translation adjustments	-	12 087	1 703	13 789
Reclassifications	(191)	1	478	288
Other changes	-	(7 555)	(13)	(7 566)
<b>Closing carrying amount</b>	<b>0</b>	<b>1 716 195</b>	<b>298 055</b>	<b>2 014 250</b>

In 2019 and in 2018, the other changes in available-for-sale investments are mainly the amortization of premiums and bond discounts. The changes in foreign currency translations are mainly due to the volatility of the British pound and the US dollar against Euro.

## Note 7 Equity-accounted investments

The following companies are accounted for using the equity method:

Associated entities	Country	Business line	% of capital held
Solunion Compañía Internacional de Seguros y Reaseguros SA	Spain	Credit Insurance	28,27%
Companhia de Seguro de Creditos SA (COSEC)	Portugal	Credit Insurance	50,00%
Israel Credit Insurance Company Ltd	Israel	Credit Insurance	50,00%
CPPIC Euler Hermes Insurance Sales Co., Ltd	China	Credit Insurance	49,00%

### Information on equity-accounted investments

(in € thousands)

	December 31, 2019				
	Country	Assets <sup>(1)</sup>	Shareholders' equity <sup>(2)</sup>	Turnover <sup>(3)</sup>	Net income
Solunion Compañía Internacional de Seguros y Reaseguros SA	Spain	439 054	140 344	229 045	6 871
Companhia de Seguro de Creditos SA (COSEC)	Portugal	122 014	71 102	48 190	9 265
Israel Credit Insurance Company Ltd (ICIC)	Israel	94 275	55 726	34 482	8 714
CPPIC Euler Hermes Insurance Sales Co., Ltd	China	3 956	5 010	2 414	(1 144)
<b>Total</b>		<b>659 299</b>	<b>272 182</b>	<b>314 131</b>	<b>23 705</b>

(1) By exception, Israel Credit Insurance Company Ltd assets are based on IFRS statements as at September 30, 2019.

(2) By exception, Israel Credit Insurance Company Ltd equity is determined on the basis of IFRS statements as at September 30, 2019.

(3) By exception, Israel Credit Insurance Company Ltd turnover corresponds to the turnover in the IFRS statements as at September 30, 2019 plus ¼ of 2018 total turnover.

(in € thousands)

	December 31, 2018				
	Country	Assets <sup>(4)</sup>	Shareholders' equity <sup>(5)</sup>	Turnover <sup>(6)</sup>	Net income
Solunion Compañía Internacional de Seguros y Reaseguros SA	Spain	407 820	135 492	199 701	5 422
Companhia de Seguro de Creditos SA (COSEC)	Portugal	128 317	67 062	45 536	8 579
Israel Credit Insurance Company Ltd (ICIC)	Israel	89 692	53 682	33 240	7 636
CPPIC Euler Hermes Insurance Sales Co., Ltd	China	4 933	4 785	3 835	115
<b>Total</b>		<b>630 762</b>	<b>261 020</b>	<b>282 311</b>	<b>21 751</b>

(4) Assets based on IFRS statements as at September 30, 2018, except for Solunion Seguros de Crédito, Compañía Internacional de Seguros y Reaseguros SA and CPPIC Euler Hermes Insurance Sales Co., Ltd for which the assets are based on IFRS statements as at December 31, 2018.

(5) Equity is determined on the basis of IFRS statements as at September 30, 2018, except for Solunion Seguros de Crédito, Compañía Internacional de Seguros y Reaseguros SA and CPPIC Euler Hermes Insurance Sales Co. for which equity is determined on the basis of IFRS statements as at December 31, 2018.

(6) The turnover corresponds to the turnover in the IFRS statements as at September 30, 2018 plus ¼ of 2017 total turnover, except for Solunion Seguros de Crédito, Compañía Internacional de Seguros y Reaseguros SA and CPPIC Euler Hermes Insurance Sales Co. for which turnover is as at December 31, 2018.

## Movements during the year

(in € thousands)	December 31, 2019	December 31, 2018
<b>Opening carrying amount</b>	<b>141 337</b>	<b>138 935</b>
Increases	-	-
Decreases	-	-
Reclassifications	(2)	-
Share of income for the period	11 863	10 874
Dividends paid	(5 901)	(6 992)
Impairment	-	-
Foreign exchange differences	660	(632)
Other changes	(53)	(848)
<b>Closing carrying amount</b>	<b>147 904</b>	<b>141 337</b>

Dividends paid out correspond to dividends paid by Compañía Internacional de Seguros y Reaseguros SA (€2.75 million) and by Israel Credit Insurance Company Ltd (€3.15 million)

The other changes are mainly due to the change in the revaluation reserves of the investments accounted for using the equity method.

## Contribution to shareholders' equity (excluding the share of net income)

(in € thousands)	December 31, 2019	December 31, 2018
Credit Insurance companies	136 041	130 463
<b>Total</b>	<b>136 041</b>	<b>130 463</b>

## Contribution to income

(in € thousands)	December 31, 2019	December 31, 2018
Credit Insurance companies	11 863	10 874
<b>Total</b>	<b>11 863</b>	<b>10 874</b>



## Note 8 Operating property and other property and equipment

(in € thousands)	December 31, 2019			December 31, 2018		
	Operating property	Other property and equipment	Total	Operating property	Other property and equipment	Total
<b>Opening balance</b>						
Gross value	27 592	136 905	164 497	27 554	131 267	158 821
Amortisation	(18 258)	(110 339)	(128 597)	(18 106)	(106 779)	(124 885)
Impairment	-	(675)	(675)	-	(671)	(671)
<b>Carrying amount</b>	<b>9 334</b>	<b>25 891</b>	<b>35 225</b>	<b>9 448</b>	<b>23 817</b>	<b>33 265</b>
<b>Change during the year</b>						
<b>Carrying amount at opening period</b>	<b>9 334</b>	<b>25 891</b>	<b>35 225</b>	<b>9 448</b>	<b>23 817</b>	<b>33 265</b>
Acquisitions	932	20 062	20 994	47	13 774	13 821
Changes in consolidation scope	-	1	1	-	(105)	(105)
Disposals	-	(3 635)	(3 635)	(35)	(6 017)	(6 052)
Reclassifications	-	49	49	-	26	26
Foreign exchange differences	(6)	111	105	11	135	146
Net depreciation	(333)	(5 684)	(6 017)	(137)	(5 740)	(5 877)
Net provisions for impairment	-	(108)	(108)	-	(4)	(4)
Other changes	-	1	1	-	5	5
<b>Carrying amount at closing period</b>	<b>9 927</b>	<b>36 688</b>	<b>46 615</b>	<b>9 334</b>	<b>25 891</b>	<b>35 225</b>
<b>Balance at closing period</b>						
Gross value	28 527	151 851	180 378	27 592	136 905	164 497
Depreciation	(18 600)	(114 380)	(132 980)	(18 258)	(110 339)	(128 597)
Impairment	-	(783)	(783)	-	(675)	(675)
<b>Carrying amount</b>	<b>9 927</b>	<b>36 688</b>	<b>46 615</b>	<b>9 334</b>	<b>25 891</b>	<b>35 225</b>

In 2019 and 2018, the acquisitions and disposals in other property and equipment are mainly due to the renewal of computers, furniture and office equipment.

## Note 9 Deferred tax

### Breakdown by type of tax

(in € thousands)	December 31, 2019	December 31, 2018
Deferred tax assets	284 132	212 003
Deferred tax liabilities	(342 666)	(270 084)
<b>Net deferred tax</b>	<b>(58 534)</b>	<b>(58 081)</b>
Tax losses	2 885	398
Deferred tax assets linked to revaluation of AFS investments	2 892	7 575
Deferred tax assets - provisions for retirement commitments	169 606	151 490
Deferred tax assets - technical reserves	7 164	7 631
Other deferred tax assets	101 585	44 909
<b>Total deferred tax assets</b>	<b>284 132</b>	<b>212 003</b>
Deferred tax liabilities linked to revaluation of AFS investments	(21 208)	(8 632)
Deferred tax liabilities - provisions for retirement commitments	(122 708)	(115 088)
Deferred tax liabilities - technical reserves	(117 117)	(114 166)
Other deferred tax liabilities	(81 633)	(32 198)
<b>Total deferred tax liabilities</b>	<b>(342 666)</b>	<b>(270 084)</b>
<b>Net deferred tax</b>	<b>(58 534)</b>	<b>(58 081)</b>
<i>After offsetting deferred tax assets and liabilities at tax entity level</i>		
Deferred tax assets	15 519	17 211
Deferred tax liabilities	(74 053)	(75 292)
<b>Net deferred tax</b>	<b>(58 534)</b>	<b>(58 081)</b>

### Movements in deferred tax by geographical region

(in € thousands)	December 31, 2018	Change through income statement	Change relating to revaluation of AFS investments & employee benefits commitments	Foreign exchange difference	Other movements	December 31, 2019
France	(7 902)	1 286	(53)	88	8	(6 573)
Germany, Austria, Switzerland	(57 941)	4 392	6 960	(92)	(1)	(46 682)
Northern Europe	(1 798)	2 261	(6 002)	(46)	1	(5 584)
Mediterranean countries, Middle East & Africa	5 737	(771)	85	(2)	(4)	5 045
Asia & Pacific countries	456	183	24	10	-	673
America	(42)	(1)	-	1	(1)	(43)
Group Services / Holdings	3 409	426	(9 219)	-	14	(5 370)
<b>Net deferred tax</b>	<b>(58 081)</b>	<b>7 776</b>	<b>(8 205)</b>	<b>(41)</b>	<b>17</b>	<b>(58 534)</b>

The net deferred tax remains stable between 2019 and 2018.

## Changes in standard tax rate

	December 31, 2019	December 31, 2018
<b>Group rate</b>	<b>28,21%</b>	<b>31,84%</b>
Belgium *	29,58%	29,58%
France *	34,43%	32,02%
Germany	31,00%	31,00%
Italy	24,00%	24,00%
United Kingdom	19,00%	19,00%
Netherlands	25,00%	25,00%
Switzerland *	12,00%	12,00%
Poland	19,00%	19,00%

The Group tax rate corresponds to the effective tax rate, which is determined on the basis of the effective income tax expense on income before tax and restated for the share of net income of entities accounted for using the equity method.

The reconciliation between the tax rate of the parent company Euler Hermes SA (NV) and the effective tax rate in 2019 is provided in Note 26 "Corporate tax".

\* These are the standard rates applicable as at December 31, 2019. As of 2019, newly enacted laws and regulations in these different countries changed the tax rates to be applied. These changes consist in either immediate or progressive decreases in standard tax rates – depending on the country. These future tax rates have been taken into account in the deferred tax bookings as at December 31, 2019.

## Note 10

## Insurance and reinsurance receivables

### Breakdown by type

(in € thousands)	December 31, 2019			December 31, 2018
	Gross	Provisions	Net	Net
Receivables from policyholders and agents	262 051	(12 967)	249 084	224 684
Earned premiums not yet written	217 091	-	217 091	187 114
Receivables from guaranteed debtors	11 066	-	11 066	14 698
Receivables from reinsurance transactions	49 114	(61)	49 052	50 949
<b>Total credit insurance receivables</b>	<b>539 322</b>	<b>(13 028)</b>	<b>526 293</b>	<b>477 445</b>

Receivables from guaranteed debtors are mainly receivables recorded by Euler Hermes SA (NV) in respect of the retail credit activity (which is in run-off since 2011). €3.6 million have been recovered during 2019 in respect of the retail credit activity.

### Breakdown by maturity

(in € thousands)	December 31, 2019				
	< 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Total credit insurance receivables	489 003	37 049	240	-	526 293

### Provisions for bad debts from policyholders and agents

(in € thousand)	December 31, 2019	December 31, 2018
<b>Balance at opening period</b>	<b>(12 318)</b>	<b>(12 488)</b>
Change in consolidation scope	-	-
Provision	(2 424)	(2 379)
Write back	2 002	2 493
Foreign exchange translation	(54)	(15)
Other changes	(173)	70
<b>Balance at closing period</b>	<b>(12 967)</b>	<b>(12 318)</b>

## Note 11 Other receivables

### Breakdown by type

(in € thousands)	December 31, 2019			December 31, 2018
	Gross	Provision	Net	Net
Current account	40 053	-	40 053	56 897
Other taxes receivables	46 885	-	46 885	48 977
Other receivables	111 501	(3 295)	108 206	110 084
<i>of which, accrued interest not due</i>	11 125	-	11 125	11 943
Deferred charges	17 856	-	17 856	9 789
Other adjustment accounts	36	-	36	31
Other assets	260	-	260	451
<b>Total other receivables</b>	<b>216 591</b>	<b>(3 295)</b>	<b>213 296</b>	<b>226 229</b>

### Breakdown by maturity

(in € thousand)	< 3months	3 months to 1 year	1 year to 5 years	> 5 years	Total
<b>Total other receivables</b>	186 848	20 032	5 374	1 042	<b>213 296</b>

## Note 12 Cash and cash equivalents

(in € thousands)	December 31, 2019	31 décembre 2018
Cash in bank and at hand	135 103	164 272
Cash pooling	43 232	24 779
<b>TOTAL CASH</b>	<b>178 335</b>	<b>189 051</b>
<b>Total cash in balance sheet</b>	<b>178 335</b>	<b>189 051</b>
Cash equivalents reflected in the cash flow statement	(104 016)	(35 003)
<b>TOTAL CASH AND CASH EQUIVALENT</b>	<b>74 319</b>	<b>154 048</b>

The negative amount for €-104,016 thousand of cash equivalents reflected in the cash flow statement corresponds to a short-term cash debt which is presented in the balance sheet in the line "Other borrowings".

## Note 13

## Revaluation reserve

(in € thousands)	Investments	Tax	Associated companies	Revaluation reserve Group share and minority interests	Minority interests	Revaluation reserve Group share
<b>Opening balance</b>	<b>(269)</b>	<b>(1 579)</b>	<b>(8 054)</b>	<b>(9 902)</b>	<b>(6 745)</b>	<b>(3 157)</b>
Change in fair market value of asset held for sale transferred through profits & losses (Gross amount) - group	(6 024)	117	-	(5 907)	(1 334)	(4 573)
Change in fair market value of asset held for sale booked through equity (Gross amount) - group	94 801	(17 464)	-	77 337	19 575	57 762
Change in fair market value of asset held for sale booked through equity (Gross amount) - associated companies	-	-	(53)	(53)	-	(53)
Impact of translation differences	1 429	-	251	1 680	134	1 546
<b>Closing balance</b>	<b>89 937</b>	<b>(18 926)</b>	<b>(7 856)</b>	<b>63 155</b>	<b>11 630</b>	<b>51 525</b>

## Note 14

## Non-controlling interests

### Movements during the year

(in € thousands)	December 31, 2019	December 31, 2018
<b>Non-controlling interests at start of period</b>	<b>222 179</b>	<b>213 295</b>
<b>Non-controlling interests' share of net income</b>	<b>9 234</b>	<b>10 259</b>
<b>Components of other comprehensive income</b>	<b>18 206</b>	<b>(17 013)</b>
Revaluation reserve for financial investments available for sale	17 923	(18 239)
Foreign currency translation differences	283	1 226
<b>Other movements</b>	<b>(6 697)</b>	<b>15 638</b>
Dividends paid to minority shareholders	(3 267)	(5 467)
Capital increases/decreases and other movements	(3 430)	21 105
<b>Non-controlling interests at end of period</b>	<b>242 922</b>	<b>222 179</b>

In 2019, capital increases/decreases and other movements correspond to the capital decrease of Euler Hermes South Express SA.

In 2018, capital increases and other movements correspond to the capital increase of Euler Hermes Patrimonia subscribed by the non-controlling interests Euler Hermes Reinsurance AG.

### Breakdown by country

(in € thousands)	December 31, 2019	December 31, 2018
Euler Hermes in Belgium	154 572	135 359
Euler Hermes in France	47 410	48 014
Euler Hermes in Luxembourg	43 507	42 106
Euler Hermes in Morocco	5 458	4 438
Euler Hermes in Switzerland	21	23
Euler Hermes in Brazil	(8 707)	(8 475)
Euler Hermes in Tunisia	661	714
<b>Non-controlling interests</b>	<b>242 922</b>	<b>222 179</b>

## Note 15

## Provisions for risks and charges

(in € thousand)	December 31, 2018	Allowance	Write back (used)	Write back (not used)	Other changes	December 31, 2019
<b>Retirement scheme</b> (see Note 16 Employee Benefits for more details)	<b>192 917</b>	<b>13 448</b>	<b>(11 585)</b>	<b>(233)</b>	<b>29 848</b>	<b>224 395</b>
Defined-benefit retirement plans	192 917	13 448	(11 585)	(233)	29 848	224 395
<b>Other provisions for risks and charges</b>	<b>110 512</b>	<b>93 714</b>	<b>(91 604)</b>	<b>(11 671)</b>	<b>2 558</b>	<b>103 509</b>
Provision for tax litigation in Germany	262	-	-	-	6	268
Provision for tax uncertainties	24 587	8 713	(3 650)	(6 035)	24	23 639
Provisions for employee benefits	57 767	81 797	(77 360)	(2 915)	2 630	61 919
Provision for restructuring	24 689	2 251	(10 594)	(2 721)	(1 974)	11 651
Provisions for sundry disputes	3 207	953	-	-	1 872	6 032
<b>Total Provisions for risks and charges</b>	<b>303 429</b>	<b>107 162</b>	<b>(103 189)</b>	<b>(11 904)</b>	<b>32 406</b>	<b>327 904</b>

For the defined-benefit retirement plans, the other changes of €29.8 million mainly consist of changes in actuarial assumptions and experience adjustments in Germany and United-Kingdom and are recognised in other comprehensive income in accordance with Revised IAS 19.

## Note 16

## Employee benefits

In accordance with the regulatory environment and collective agreements, the Group has established defined contribution and defined benefit pension plans (company or multi-employer) in favour of employees.

### Defined-contribution plans

Defined-contribution plans are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g. based on salary) are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions.

During the year ended December 31, 2019, the Group recognised expenses for defined-contribution plans of €7.5 million (€8 million in 2018). Additionally, the Group paid contributions for state pension schemes of €27 million in 2019 (€25.1 million in 2018).

### 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 France. Contributions are paid by Euler Hermes France to beneficiaries or their surviving spouse (reversion) until their death. The plan is managed by BCAC, which informs Euler Hermes France quarterly of the contributions to be paid.
- 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 France. The contributions are paid by Cardif to the beneficiaries or their surviving spouse (reversion) until their death.
- Euler Hermes SA (NV) (Italy branch): TFR (Trattamento di Fine Rapporto) is a pension plan established by Italian legislation that is similar to a defined-benefit pension plan. It is valued in accordance with IAS 19 by an independent actuary.

The following items were taken into account when measuring the commitment at year-end:

- the retirement age was taken as 62 years for women and 66 years for men;
  - the probability of leaving the Italy branch within the next five years for employees under 42 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.
  - Euler Hermes SA (NV) (Italy branch) has no dedicated hedging instrument that covers the actuarial liability.
- Euler Hermes SA (NV) (UK branch): the UK branch operates a defined-benefit pension plan that covers all employees who

had joined the company by December 31, 2001. Under this plan, employees will be granted a pension on retirement, based on a fraction of their final salary and based on their length of service within the company while the plan was open to future accrual. The plan closed to future accrual with effect from December 31, 2012, at which point the link to future salary increases was removed. 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 2012 closure of the plan has resulted in a curtailment gain of £6.2 million.

- AVK/APV: Euler Hermes Deutschland, branch of Euler Hermes SA (NV) has implemented a defined-benefit pension plan for all their employees. The beneficiaries will receive an annuity upon retirement at 65 years old at the latest. These plans are financed in part by external companies, namely Pensionskasse AVK and Unterstützungskasse APV and by contractual trust arrangement namely Methusalem Trust e.V. Employees who leave the company prior to the date provided for may benefit from an annuity of a lower amount than the one initially provided for.

Within the Allianz defined-benefit plan in which the Group is involved in Germany, the assumptions for determining the DBO have been updated in 2014. The plan has been split into 2 items: on one hand the engagement to pay a fixed annuity to employees, covered by an insurance contract and on the other hand the engagement to pay a compensation for the inflation. As a result, the analysis leads to the conclusion that the engagement to pay the fixed annuity was already fully covered in the absence of profit participation and could be evaluated at the fair value of plan assets. The second part is still valued according to the projected unit credit method as required by IAS 19.

- Euler Hermes SA (NV) (Belgium branch) has implemented a plan that covers the payment to employees of Euler Hermes Credit Insurance Belgium and Euler Hermes Services Belgium SA of a fixed capital amount equal to a multiple of their salary at 60 years old. It also provides coverage in the event of death – a multiple of salary based on family composition – or invalidity of the employee. The plan was closed in 2012.

In 2016, the Belgium Group insurance main and complementary DC plans have been accounted as DB plans due to the minimum return defined by the Belgian law.

- Euler Hermes SA (NV) (Netherlands branch) implemented a defined benefit pension plan for its employees that is managed by Delta Lloyd. The plan was closed at the end of 2012.

A defined-benefit plan was signed in February 2009 with Aegon and covers 6 employees. The plan is renewed every 5 years.

- Scandinavia:

Euler Hermes SA (NV) (Sweden branch): a multi-employer plan that is managed by the life insurance company SPP. Employees begin to accrue pensions at 28 years old. Employees can receive a pension as from 65 years old. Employees are then guaranteed an average 65% of their final salaries.

Euler Hermes SA (NV) (Norway branch): a multi-employer plan that is managed by the life insurance company Vital. Employees begin to accrue pensions from the first day of employment. Employees can receive a pension from 65 years old. Employees are then guaranteed 65% of their final salaries.



December 31, 2019 (in € thousands)	France & Greece							Scandinavia			Total
	Retirement indemnities	PSAD	Cardif	Italy	United-Kingdom	Germany	Belgium	Netherlands	FTP	VITAL	
<b>Actuarial obligation - Opening value</b>	<b>(11 208)</b>	<b>(1 485)</b>	<b>(993)</b>	<b>(9 604)</b>	<b>(223 025)</b>	<b>(538 585)</b>	<b>(26 225)</b>	<b>(22 276)</b>	<b>(8 498)</b>	<b>(1 629)</b>	<b>(843 527)</b>
Current period service cost	(762)	-	-	(975)	-	(9 825)	(1 034)	(786)	(233)	(99)	(13 714)
Interest on obligation	(179)	(22)	(15)	(38)	(6 097)	(10 596)	(429)	(442)	(167)	(41)	(18 026)
Employee contributions	-	-	-	-	-	(2 249)	(119)	(336)	-	-	(2 704)
Plan amendment	-	-	-	-	-	-	-	-	-	-	-
Acquisitions/disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Plan curtailments	-	-	-	-	-	-	-	-	-	-	-
Plan settlements	-	-	-	-	-	-	-	-	-	-	-
Actuarial gains (losses) due to a change in assumptions	(464)	(94)	(105)	-	(25 261)	(57 985)	(3 175)	(5 219)	(1 398)	(122)	(93 823)
Actuarial gains (losses) due to a change in experience	285	(201)	7	(154)	(879)	6 524	79	(266)	733	-	6 128
Benefits paid	353	294	52	479	5 382	14 991	458	19	226	16	22 270
Currency translation difference	-	-	-	-	(13 239)	-	-	-	296	(5)	(12 948)
Other	-	-	-	-	-	1 736	(1 167)	-	-	-	569
Removal of the discretionary clause	-	-	-	-	-	-	-	-	-	-	-
<b>Actuarial obligation - Closing value</b>	<b>(11 975)</b>	<b>(1 508)</b>	<b>(1 054)</b>	<b>(10 292)</b>	<b>(263 118)</b>	<b>(595 989)</b>	<b>(31 612)</b>	<b>(29 306)</b>	<b>(9 041)</b>	<b>(1 880)</b>	<b>(955 775)</b>
<b>Fair value of plan assets - Opening value</b>	<b>8 226</b>	<b>-</b>	<b>805</b>	<b>-</b>	<b>227 305</b>	<b>372 810</b>	<b>19 330</b>	<b>18 987</b>	<b>6 427</b>	<b>1 000</b>	<b>654 891</b>
Interest income on plan assets	130	-	12	-	6 212	7 417	322	393	127	25	14 639
Actuarial gains (losses) due to a change in experience	(18)	-	(1)	-	16 627	28 879	1 162	5 991	714	(21)	53 334
Employee contributions	(329)	-	-	-	-	2 249	119	336	-	-	2 375
Employer contributions	1 404	-	-	-	433	5 242	372	1 138	422	116	9 127
Acquisitions /disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Plan curtailments	-	-	-	-	-	-	-	-	-	-	-
Plan settlements	-	-	-	-	-	-	-	-	-	-	-
Benefits paid	(251)	-	(52)	-	(5 382)	(9 718)	(458)	(19)	(212)	-	(16 092)
Currency translation difference	-	-	-	-	13 512	-	-	-	(213)	(0)	13 299
Other	-	-	(1)	-	-	(1 257)	1 065	-	-	-	(193)
<b>Fair value of plan assets - Closing value</b>	<b>9 162</b>	<b>-</b>	<b>763</b>	<b>-</b>	<b>258 708</b>	<b>405 622</b>	<b>21 912</b>	<b>26 826</b>	<b>7 266</b>	<b>1 120</b>	<b>731 379</b>
<b>Net commitments &lt;0</b>	<b>(2 813)</b>	<b>(1 508)</b>	<b>(291)</b>	<b>(10 292)</b>	<b>(4 411)</b>	<b>(190 367)</b>	<b>(9 700)</b>	<b>(2 480)</b>	<b>(1 774)</b>	<b>(760)</b>	<b>(224 395)</b>
<b>Net commitments &gt;0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Actuarial Gain / Loss - Cumulative amount in Other Comprehensive Income</b>											
<b>Net - Opening value</b>	<b>(1 872)</b>	<b>798</b>	<b>(189)</b>	<b>(464)</b>	<b>(49 803)</b>	<b>(84 651)</b>	<b>(2 977)</b>	<b>(762)</b>	<b>(2 156)</b>	<b>576</b>	<b>(141 500)</b>
Gross	(197)	(295)	(99)	(153)	(9 512)	(22 583)	(1 934)	506	53	(143)	(34 356)
Tax effect	46	80	27	68	1 617	7 001	484	(126)	(11)	36	9 220
<b>Net of tax - Closing value</b>	<b>(2 023)</b>	<b>583</b>	<b>(261)</b>	<b>(549)</b>	<b>(57 698)</b>	<b>(100 233)</b>	<b>(4 427)</b>	<b>(382)</b>	<b>(2 114)</b>	<b>469</b>	<b>(166 635)</b>
<b>Expenses for the period</b>	<b>(811)</b>	<b>(22)</b>	<b>(3)</b>	<b>(1 013)</b>	<b>115</b>	<b>(13 004)</b>	<b>(1 141)</b>	<b>(835)</b>	<b>(272)</b>	<b>(115)</b>	<b>(17 101)</b>
Current period service cost	(762)	-	-	(975)	-	(9 825)	(1 034)	(786)	(233)	(99)	(13 714)
Finance cost (effect of discounting)	(179)	(22)	(15)	(38)	(6 097)	(10 596)	(429)	(442)	(167)	(41)	(18 026)
Interest income on plan assets	130	-	12	-	6 212	7 417	322	393	127	25	14 639
Profit/loss on curtailment/settlement	-	-	-	-	-	-	-	-	-	-	-
Asset ceiling limitation	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-

December 31, 2019	France & Greece			Italy	United-Kingdom	Germany	Belgium	Netherlands	Scandinavia	
(in € thousands)	Retirement indemnities	PSAD	Cardif						FTP	VITAL
<b>Actuarial assumptions <sup>(1)</sup></b>										
Discounting rates used	0,60%	0,60%	0,60%	0,60%	2,10%	1,10%	0,63%	2,00%	1,30%	1,80%
Inflation rate used	1,90%	1,90%	1,90%	1,50%	3,10%	1,50%	-	-	2,00%	-
Expected rate of salary increase	2,20%	2,20%	2,20%	1,5% / 0,50% <sup>(4)</sup>	-	1,70%	2,50%	2,20%	3,00%	2,25%
Expected rate of social security increases	-	-	-	-	-	-	-	-	3,00%	2,00%
Rate of increase of benefit used by plan	-	-	-	-	2,10%	-	-	-	2,00%	2,00%
Plan retirement age	63	63	63	62 et 66 <sup>(3)</sup>	65	63	60	67	65	65
Plan residual service period	-	-	-	-	-	-	15	11	10	-
<b>Structure of plan assets <sup>(2)</sup></b>										
Equities	-	-	-	-	20,34%	9,61%	-	-	11,00%	12,00%
Bonds	-	-	100,00%	-	23,73%	85,14%	-	-	64,00%	44,80%
Real estate	100,00%	-	-	-	8,47%	4,43%	-	-	12,00%	10,50%
Other instruments	-	-	-	-	47,46%	0,82%	100,00%	100,00%	13,00%	32,70%

(1) Actuarial assumptions: Germany and Belgium correspond to the actuarial assumptions of the more significant scheme

(2) Structure of hedging assets by entity. Germany and Netherlands correspond to the statistic of the more significant scheme

(3) The retirement age has been taken as 62 years for women and 66 years for men

(4) 1.50% for the executives and 0.50% for the non-executives

December 31, 2018 (in € thousands)	France & Greece			Italy	United-Kingdom	Germany	Belgium	Netherlands	Scandinavia		Total
	Retirement indemnities	PSAD	Cardif						FTP	VITAL	
<b>Actuarial obligation - Opening value</b>	<b>(10 910)</b>	<b>(2 430)</b>	<b>(1 020)</b>	<b>(9 076)</b>	<b>(243 273)</b>	<b>(534 855)</b>	<b>(25 884)</b>	<b>(21 241)</b>	<b>(8 410)</b>	<b>(1 412)</b>	<b>(858 511)</b>
Current period service cost	(740)	-	-	(788)	(1 380)	(10 235)	(1 020)	(990)	(201)	(102)	(15 456)
Interest on obligation	(156)	(33)	(14)	(55)	(5 741)	(9 554)	(371)	(402)	(181)	(34)	(16 541)
Employee contributions	-	-	-	-	-	(2 196)	(128)	(304)	-	-	(2 628)
Plan amendment	(15)	-	-	-	-	-	-	1	-	-	(14)
Acquisitions/disposals of subsidiaries	-	-	-	-	-	349	-	-	-	-	349
Plan curtailments	-	-	-	-	-	-	-	-	-	-	-
Plan settlements	-	-	-	-	-	-	-	-	-	-	-
Actuarial gains (losses) due to a change in assumptions	(48)	(25)	(12)	-	11 825	13 063	(6)	30	(214)	(117)	24 496
Actuarial gains (losses) due to a change in experience	166	803	1	(24)	1 841	(9 480)	(679)	616	(11)	-	(6 768)
Benefits paid	495	200	52	339	11 077	14 323	1 863	14	272	18	28 653
Currency translation difference	-	-	-	-	2 627	-	-	-	248	18	2 892
Other	-	-	-	-	-	(1)	-	-	-	-	(1)
Removal of the discretionary clause	-	-	-	-	-	-	-	-	-	-	-
<b>Actuarial obligation - Closing value</b>	<b>(11 208)</b>	<b>(1 485)</b>	<b>(993)</b>	<b>(9 604)</b>	<b>(223 025)</b>	<b>(538 585)</b>	<b>(26 225)</b>	<b>(22 276)</b>	<b>(8 498)</b>	<b>(1 629)</b>	<b>(843 527)</b>
<b>Fair value of plan assets - Opening value</b>	<b>7 532</b>	<b>-</b>	<b>826</b>	<b>-</b>	<b>245 259</b>	<b>368 751</b>	<b>19 881</b>	<b>18 001</b>	<b>6 667</b>	<b>860</b>	<b>667 777</b>
Interest income on plan assets	104	-	11	-	5 788	6 627	290	304	145	20	13 289
Actuarial gains (losses) due to a change in experience	(3)	-	20	-	(10 458)	(1 614)	385	(593)	(345)	2	(12 605)
Employee contributions	(329)	-	-	-	-	2 195	128	304	-	-	2 298
Employer contributions	1 289	-	-	-	430	6 295	509	985	424	129	10 060
Acquisitions /disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Plan curtailments	-	-	-	-	-	(204)	-	-	-	-	(204)
Plan settlements	-	-	-	-	-	-	-	-	-	-	-
Benefits paid	(367)	-	(52)	-	(11 077)	(9 272)	(1 863)	(14)	(268)	-	(22 913)
Currency translation difference	-	-	-	-	(2 636)	-	-	-	(196)	(12)	(2 844)
Other	-	-	-	-	-	32	-	-	-	-	32
<b>Fair value of plan assets - Closing value</b>	<b>8 226</b>	<b>-</b>	<b>805</b>	<b>-</b>	<b>227 305</b>	<b>372 810</b>	<b>19 330</b>	<b>18 987</b>	<b>6 427</b>	<b>1 000</b>	<b>654 891</b>
<b>Net commitments &lt;0</b>	<b>(2 982)</b>	<b>(1 485)</b>	<b>(188)</b>	<b>(9 604)</b>	<b>-</b>	<b>(165 775)</b>	<b>(6 895)</b>	<b>(3 289)</b>	<b>(2 070)</b>	<b>(629)</b>	<b>(192 917)</b>
<b>Net commitments &gt;0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4 281</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4 281</b>
<b>Actuarial Gain / Loss - Cumulative amount in Other Comprehensive Income</b>											
<b>Gross - Opening value</b>	<b>(272)</b>	<b>43</b>	<b>(199)</b>	<b>(618)</b>	<b>(67 364)</b>	<b>(124 640)</b>	<b>(3 822)</b>	<b>(1 195)</b>	<b>(1 692)</b>	<b>378</b>	<b>(199 380)</b>
Other variation	(2 122)	-	-	1	788	(11)	(701)	125	(168)	181	(1 907)
Gross - Movement	112	778	10	(24)	3 207	1 969	(300)	53	(111)	(577)	5 117
<b>Gross - Closing Value</b>	<b>(2 281)</b>	<b>821</b>	<b>(189)</b>	<b>(640)</b>	<b>(63 369)</b>	<b>(122 682)</b>	<b>(4 823)</b>	<b>(1 017)</b>	<b>(1 971)</b>	<b>(18)</b>	<b>(196 171)</b>
Tax effect	410	(23)	-	176	13 566	38 032	1 847	254	(184)	594	54 671
<b>Net of tax - Closing value</b>	<b>(1 872)</b>	<b>798</b>	<b>(189)</b>	<b>(464)</b>	<b>(49 803)</b>	<b>(84 651)</b>	<b>(2 977)</b>	<b>(762)</b>	<b>(2 156)</b>	<b>576</b>	<b>(141 500)</b>
<b>Expenses for the period</b>	<b>(806)</b>	<b>(33)</b>	<b>(3)</b>	<b>(843)</b>	<b>(1 334)</b>	<b>(13 162)</b>	<b>(1 101)</b>	<b>(1 087)</b>	<b>(116)</b>	<b>(237)</b>	<b>(18 721)</b>
Current period service cost	(754)	-	-	(788)	(1 380)	(10 235)	(1 020)	(989)	(102)	(201)	(15 469)
Finance cost (effect of undiscounting)	(156)	(33)	(14)	(55)	(5 741)	(9 554)	(371)	(402)	(34)	(181)	(16 541)
Interest income on plan assets	104	-	11	-	5 788	6 627	290	304	20	145	13 289
Profit/loss on curtailment/settlement	-	-	-	-	-	-	-	-	-	-	-
Asset ceiling limitation	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-

December 31, 2018 (in € thousands)	France & Greece			Italy	United-Kingdom	Germany	Belgium	Netherlands	Scandinavia	
	Retirement indemnities	PSAD	Cardif						FTP	VITAL
<b>Actuarial assumptions <sup>(1)</sup></b>										
Discounting rates used	1,60%	1,60%	1,60%	1,60%	2,70%	2,00%	1,60%	2,00%	2,10%	2,60%
Inflation rate used	1,80%	1,80%	1,80%	1,50%	2,80%	1,70%	1,80%	-	2,00%	-
Expected rate of salary increase	2,20%	2,20%	2,20%	1,5% / 0,50% <sup>(4)</sup>	-	1,70%	2,50%	2,80%	3,00%	2,75%
Expected rate of social security increases	-	-	-	-	-	-	-	-	3,00%	2,50%
Rate of increase of benefit used by plan	-	-	-	-	3,20%	-	-	-	2,00%	2,50%
Plan retirement age	63	63	63	62 et 66 <sup>(3)</sup>	65	63	60	67	65	65
Plan residual service period	-	-	-	-	-	15	11	16	-	-

#### Structure of plan assets <sup>(2)</sup>

Equities	-	-	-	-	19,23%	8,70%	-	-	11,00%	12,80%
Bonds	-	-	100,00%	-	24,02%	85,70%	-	-	77,00%	43,10%
Real estate	100,00%	-	-	-	8,90%	4,50%	-	-	12,00%	9,10%
Other instruments	-	-	-	-	47,85%	1,10%	100,00%	100,00%	-	35,00%

- (1) Actuarial assumptions: Germany and Belgium correspond to the actuarial assumptions of the more significant scheme  
(2) Structure of hedging assets by entity. Germany and Netherlands correspond to the statistic of the more significant scheme  
(3) The retirement age has been taken as 62 years for women and 66 years for men  
(4) 1.50% for the executives and 0.50% for the non-executives

## Sensitivity of actuarial assumptions

As far as the Germany scope is concerned (85% of Group net commitments for the defined-benefit retirement plans), an increase of the discount rate by a 50 bps would decrease the defined-benefit obligation by €39 million. A decrease of 50 bps would lead to an increase of €45 million. An increase or a decrease of the salary by 25 bps would have no material effect on the defined-benefit obligation.

In the United Kingdom, an increase of 50 bps in the discount rate would result in a decrease in the defined-benefit obligation by €202 million. An increase of 25 bps in the retail price index (RPI) would increase the provision by 229 million euros.

## Estimation of future benefit payments

The table below presents the estimated future benefit payments that will be met mainly to the benefit of the employee of the German entities, by the pension funds or by the Group:

(in € thousands)	Pension Benefits
2019	17 533
2020	18 306
2021	18 798
2022	19 979
2023	20 122
2024	21 313
2025-2029	113 036

## Breakdown by type

(in € thousands)	December 31, 2019	December 31, 2018
Term loans and other term borrowings	67 901	40 437
Demand accounts	-	-
<b>Borrowings from banking sector businesses</b>	<b>67 901</b>	<b>40 437</b>
<b>Other borrowings</b>	<b>104 016</b>	<b>35 003</b>
<b>Total borrowings</b>	<b>171 917</b>	<b>75 440</b>

Bank borrowings mainly correspond to the following items:

- Credit line of €32 million from AAREAL Bank with redemption on October 22, 2023, with variable annual interest rate Euribor equal to the 3 month Euribor rate plus 1.55% margin.
- Accrued interest for €0.1 million.
- Bank overdraft for €25.5 million, mainly in France.
- Liabilities to customers from collaterals received for €10 million.

As at December 31, 2019, other borrowings consist of €104 million: cash pooling with Euler Hermes Group for € 75 million and Euler Hermes Ré for €22 million.

As at December 31, 2018, other borrowings consist of €35 million, including cash pooling with Euler Hermes Group for € 29.8 million. The loan of €65 million with Euler Hermes Group has been fully reimbursed in 2018.

## Breakdown by maturity

(in € thousands)	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
Total borrowings	27 028	112 782	-	32 107	171 917

## Breakdown of interest payable by maturity

(in € thousands)	2019	2020 to 2022 (1)	2023
Borrowing 2013 of €32 million maturity 22/10/2023, Euribor 3M + 1,55% <sup>(2)</sup>	0,50	1,49	0,41
<b>Total future interest expenses with others than Allianz group</b>	<b>0,50</b>	<b>1,49</b>	<b>0,41</b>

(1) This interest is cumulated over 3 years; the annual interest on loans amounts to €0.5 million.

(2) The line of credit of € 32 million maturity October 2023 has been totally drawn down.

## Note 18

## Technical reserves

(in € thousands)	December 31, 2018	Allowance net of writebacks	Foreign exchange differences	Changes in consolidation scope	Other changes	December 31, 2019
Reserve for unearned premiums	395 496	38 719	7 761	-	-	441 976
Reserve for claims net of forecasts of recoveries	1 390 805	62 866	16 954	-	2 926	1 473 551
Reserve for no-claims bonuses and rebates	155 586	7 281	1 075	-	515	164 457
<b>Gross technical reserves</b>	<b>1 941 887</b>	<b>108 866</b>	<b>25 790</b>	<b>-</b>	<b>3 441</b>	<b>2 079 984</b>
Reserve for unearned premiums	40 990	4 476	314	-	(1)	45 779
Reserve for claims net of forecasts of recoveries	938 343	91 283	9 356	-	1 551	1 040 533
Reserve for no-claims bonuses and rebates	99 362	6 202	860	-	514	106 938
<b>Reinsurers' share of technical reserves</b>	<b>1 078 695</b>	<b>101 961</b>	<b>10 530</b>	<b>-</b>	<b>2 064</b>	<b>1 193 250</b>
<b>Net technical reserves</b>	<b>863 192</b>	<b>6 905</b>	<b>15 260</b>	<b>-</b>	<b>1 377</b>	<b>886 734</b>

### Claims reserves

(in € thousands)	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Claims reserves gross of recoveries</b>	<b>1 762 062</b>	<b>(1 252 951)</b>	<b>509 111</b>	<b>1 624 639</b>	<b>(1 102 665)</b>	<b>521 974</b>
Current period	1 070 498	(784 781)	285 717	904 743	(629 333)	275 410
Prior period	691 564	(468 170)	223 394	719 896	(473 332)	246 564
<b>Recoveries to be received</b>	<b>(288 511)</b>	<b>212 418</b>	<b>(76 093)</b>	<b>(233 834)</b>	<b>164 322</b>	<b>(69 512)</b>
Current period	(111 553)	86 346	(25 207)	(81 961)	57 448	(24 513)
Prior period	(176 958)	126 072	(50 886)	(151 873)	106 874	(44 999)
<b>Claims reserves</b>	<b>1 473 551</b>	<b>(1 040 533)</b>	<b>433 018</b>	<b>1 390 805</b>	<b>(938 343)</b>	<b>452 462</b>

### Breakdown by type of reserve

(in € thousands)	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Reserves for unearned premiums</b>	<b>441 976</b>	<b>(45 779)</b>	<b>396 197</b>	<b>395 496</b>	<b>(40 990)</b>	<b>354 506</b>
<b>Claims reserves</b>	<b>1 473 551</b>	<b>(1 040 533)</b>	<b>433 018</b>	<b>1 390 805</b>	<b>(938 343)</b>	<b>452 462</b>
of which, reserves for known claims	1 012 474	(679 942)	332 532	1 034 683	(676 347)	358 336
of which, reserves for late claims	651 102	(540 430)	110 672	499 682	(403 623)	96 059
of which, reserves for claims handling expenses	98 439	(32 579)	65 860	90 277	(22 695)	67 582
of which, other technical reserves	47	1	48	(3)	1	(2)
of which, recoveries to be received	(288 511)	212 417	(76 094)	(233 834)	164 321	(69 513)
<b>No-claims bonuses and rebates</b>	<b>164 457</b>	<b>(106 938)</b>	<b>57 519</b>	<b>155 586</b>	<b>(99 362)</b>	<b>56 224</b>
<b>Technical reserves</b>	<b>2 079 984</b>	<b>(1 193 250)</b>	<b>886 734</b>	<b>1 941 887</b>	<b>(1 078 695)</b>	<b>863 192</b>

## Note 19

## Insurance and reinsurance liabilities

### Breakdown by type and by maturity

(in € thousand)	December 31, 2019	December 31, 2018
Policyholders' guarantee deposits and miscellaneous	78 566	86 920
Liabilities due to policyholders and agents	91 440	82 216
<b>Liabilities arising from inward insurance and reinsurance transactions</b>	<b>170 006</b>	<b>169 137</b>
Liabilities due to reinsurers and assignors	75 296	79 314
Deposits received from reinsurers	20 606	18 282
<b>Outwards reinsurance liabilities</b>	<b>95 902</b>	<b>97 595</b>
<b>TOTAL INSURANCE AND REINSURANCE LIABILITIES</b>	<b>265 908</b>	<b>266 732</b>

(in € thousand)	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>TOTAL INSURANCE AND REINSURANCE LIABILITIES</b>	261 490	2 516	446	1 456	265 908

## Note 20

## Other liabilities

### Breakdown by type and by maturity

(in € thousands)	December 31, 2019	December 31, 2018
Tax and social liabilities	135 501	139 753
Other operating liabilities	143 029	128 731
Deferred income	11 279	25 007
Lease liability	217 433	-
Other accrued expenses	-	-
Other liabilities	295	255
<b>TOTAL OTHER LIABILITIES</b>	<b>507 537</b>	<b>293 746</b>

(in € thousands)	3 months or less	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>TOTAL OTHER LIABILITIES</b>	405 879	21 672	54 062	25 924	507 537

### Lease liabilities

The Allianz Group as a lessee measures its lease liability at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Group's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. Furthermore, the Group does not recognize right-of-use assets and lease liabilities for car leases. The expenses relating to the short-term leases and leases of low-value assets including car leases are expensed on a straight-line basis over the lease term.

For further information on these expenses, please refer to Note 23 "Leases".

## Note 21

## Breakdown of ordinary operating income

(in € thousands)	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Premiums and commissions	2 110 471	(1 538 162)	572 309	1 987 199	(1 439 927)	547 272
Premiums refunded	(143 711)	98 067	(45 644)	(141 105)	97 074	(44 031)
<b>Gross premiums written - credit insurance</b>	<b>1 966 760</b>	<b>(1 440 094)</b>	<b>526 666</b>	<b>1 846 094</b>	<b>(1 342 853)</b>	<b>503 241</b>
Change in unearned premiums	(38 719)	11 457	(27 262)	(38 141)	12 125	(26 016)
<b>Earned premiums</b>	<b>1 928 041</b>	<b>(1 428 637)</b>	<b>499 404</b>	<b>1 807 953</b>	<b>(1 330 728)</b>	<b>477 225</b>
Service revenues	273 095	-	273 095	267 502	-	267 502
<b>Turnover</b>	<b>2 201 136</b>	<b>(1 428 637)</b>	<b>772 499</b>	<b>2 075 455</b>	<b>(1 330 728)</b>	<b>744 727</b>
<b>Net investment income</b>	<b>41 619</b>	<b>-</b>	<b>41 619</b>	<b>46 858</b>	<b>-</b>	<b>46 858</b>
Claims paid	(826 460)	608 650	(217 810)	(802 168)	580 798	(221 370)
Claims reserves expenses	(56 541)	81 551	25 010	125 328	(71 626)	53 702
Claims handling expenses	(121 075)	33 291	(87 784)	(117 250)	17 738	(99 512)
<b>Insurance services expenses</b>	<b>(1 004 076)</b>	<b>723 492</b>	<b>(280 584)</b>	<b>(794 090)</b>	<b>526 910</b>	<b>(267 180)</b>
Brokerage commissions	(204 137)	-	(204 137)	(187 996)	-	(187 996)
Other acquisition costs	(164 697)	-	(164 697)	(176 627)	-	(176 627)
Change in acquisition costs capitalised	2 074	-	2 074	2 113	-	2 113
<b>Contract acquisition expenses</b>	<b>(366 760)</b>	<b>-</b>	<b>(366 760)</b>	<b>(362 510)</b>	<b>-</b>	<b>(362 510)</b>
<b>Impairment of portfolio securities and similar</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Administration expenses</b>	<b>(218 673)</b>	<b>-</b>	<b>(218 673)</b>	<b>(215 142)</b>	<b>-</b>	<b>(215 142)</b>
<b>Commissions received from reinsurers</b>	<b>-</b>	<b>487 817</b>	<b>487 817</b>	<b>-</b>	<b>450 560</b>	<b>450 560</b>
<b>Other ordinary operating income and expenses</b>	<b>(233 580)</b>	<b>-</b>	<b>(233 580)</b>	<b>(197 982)</b>	<b>-</b>	<b>(197 982)</b>
<b>Current operating income</b>	<b>419 666</b>	<b>(217 329)</b>	<b>202 337</b>	<b>552 589</b>	<b>(353 257)</b>	<b>199 332</b>

### Cost of claims

(in € thousands)	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Cost of claims for the current period</b>	<b>1 440 837</b>	<b>(1 029 309)</b>	<b>411 528</b>	<b>1 220 232</b>	<b>(823 015)</b>	<b>397 217</b>
of which, claims paid	317 376	(236 583)	80 793	259 300	(190 237)	69 063
of which, claims reserves	1 008 139	(770 094)	238 045	855 562	(624 069)	231 493
of which, claims handling expenses	115 322	(22 632)	92 690	105 370	(8 709)	96 661
<b>Recoveries for the current period</b>	<b>(117 009)</b>	<b>90 159</b>	<b>(26 850)</b>	<b>(95 563)</b>	<b>68 057</b>	<b>(27 506)</b>
Recoveries received	(6 132)	4 417	(1 715)	(13 461)	10 516	(2 945)
Change in reserves for recoveries	(110 877)	85 742	(25 135)	(82 102)	57 541	(24 561)
<b>Cost of claims from prior periods</b>	<b>(276 298)</b>	<b>188 206</b>	<b>(88 092)</b>	<b>(250 079)</b>	<b>173 158</b>	<b>(76 921)</b>
of which, claims paid	615 883	(442 654)	173 229	683 128	(487 846)	195 282
of which, claims reserves	(897 934)	641 519	(256 415)	(945 087)	670 033	(275 054)
of which, claims handling expenses	5 753	(10 659)	(4 906)	11 880	(9 029)	2 851
<b>Recoveries from prior periods</b>	<b>(43 454)</b>	<b>27 452</b>	<b>(16 002)</b>	<b>(80 500)</b>	<b>54 890</b>	<b>(25 610)</b>
Recoveries received	(100 667)	66 170	(34 497)	(126 799)	86 769	(40 030)
Change in reserves for recoveries	57 213	(38 718)	18 495	46 299	(31 879)	14 420
<b>Cost of claims</b>	<b>1 004 076</b>	<b>(723 492)</b>	<b>280 584</b>	<b>794 090</b>	<b>(526 910)</b>	<b>267 180</b>



## Note 22

## Net financial income

(in € thousands)	December 31, 2019	December 31, 2018
<b>Revenues from investment property</b>	<b>10 114</b>	<b>10 177</b>
<b>Revenues from equity &amp; debt securities</b>	<b>34 033</b>	<b>30 322</b>
Available for sale assets through equity	34 033	30 322
<b>Revenues from loans, deposits and other financial investments</b>	<b>7 099</b>	<b>7 497</b>
<b>Other financial income</b>	<b>36</b>	<b>1</b>
<b>Investment income</b>	<b>51 282</b>	<b>47 998</b>
Depreciation of investment property	(2 672)	(2 672)
Investment management expenses	(5 967)	(5 345)
Interest paid to reinsurers	(446)	(395)
Other financial expenses	-	-
<b>Investment expenses</b>	<b>(9 085)</b>	<b>(8 411)</b>
<b>Profits (losses) on sales of property</b>	<b>-</b>	<b>-</b>
<b>Net profits (losses) on sales of securities</b>	<b>7 024</b>	<b>12 404</b>
Available for sale assets through equity	7 024	12 404
<b>Profits (losses) on sales of participating interests</b>	<b>-</b>	<b>-</b>
<b>Net gain (loss) on sales of investments less impairment and depreciation write backs</b>	<b>7 024</b>	<b>12 404</b>
Change in fair value of derivatives	(2 798)	(1 607)
Change in fair value of trading assets	-	-
<b>Change in fair value of investments recognised at fair value through the income statement</b>	<b>(2 798)</b>	<b>(1 607)</b>
Reserve for impairment of investments	(2 872)	(204)
<b>Change in impairment of investments</b>	<b>(2 872)</b>	<b>(204)</b>
<b>Net change in foreign currency</b>	<b>(1 932)</b>	<b>(3 322)</b>
<b>Net financial income (excluding financing expense)</b>	<b>41 619</b>	<b>46 858</b>

The net financial income (before financing expense) amounts to €41.6 million in 2019 against €46.9 million in 2018, mainly impacted by a decrease in net profits on sales of securities (AFS).

**Note 23****Leases**

The Group occupies property in many locations under various long-term leases and has entered into various leases covering the long-term use of data processing equipment and other office equipment.

As a lessee, as of 31 December 2019, the maturities for the lease liabilities were as follows:

**Maturities for the lease liabilities**

(in € thousand)	December 31, 2019		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than 1 year	28 094	(1 178)	26 916
1 to 5 years	96 736	(2 859)	93 877
More than 5 years	97 602	(963)	96 640
<b>Total</b>	<b>222 433</b>	<b>(4 999)</b>	<b>217 433</b>

**Information according to IFRS 16**

(in € thousand)	2019
Interest expense on lease liabilities, included in <a href="#">note 20</a>	(1 576)
Rental expense short-term leases	(3 195)
Rental expense low-value assets	(499)
Expense relating to variable lease payments not included in the measurement of lease liabilities	(51)
Income from subleasing right-of-use assets	230
Total cash outflow for leases	(29 380)
Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities	(1 568)

The information related to the right-of-use assets can be consulted in the [note 4](#).

## Note 24 Other ordinary operating revenues and expenses

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(in € thousands)	December 31, 2019	December 31, 2018
Other technical income	110 128	115 608
<b>Other ordinary operating income</b>	<b>110 128</b>	<b>115 608</b>
Other ordinary operating expenses	(333 979)	(305 210)
Employee profit sharing and bonuses	(9 729)	(8 380)
<b>Other ordinary operating expenses</b>	<b>(343 708)</b>	<b>(313 590)</b>
<b>Other ordinary operating income and expenses</b>	<b>(233 580)</b>	<b>(197 982)</b>

The other ordinary operating expenses mainly concern expenses related to services activities.

## Note 25 Other operating revenues and expenses

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(in € thousand)	December 31, 2019	December 31, 2018
Other non-ordinary operating income	-	-
Other non-ordinary operating expenses	(289)	(3 773)
<b>Other non-ordinary operating income and expenses</b>	<b>(289)</b>	<b>(3 773)</b>

In 2018 and 2019, the other non-ordinary operating expenses are mainly related to restructuring costs under the continuity of the Alchemy restructuring plan.

### Breakdown of tax charge between current income tax and deferred income tax

The tax expense is split as follows:

(in € thousands)	December 31, 2019	December 31, 2018
<b>Current income tax</b>		
Belgium	2 819	2 819
Other countries	64 495	72 234
<b>Subtotal</b>	<b>67 314</b>	<b>75 053</b>
<b>Deferred income tax</b>		
Belgium	1 073	1 073
Other countries	(8 849)	(11 703)
<b>Subtotal</b>	<b>(7 776)</b>	<b>(10 630)</b>
<b>Total Corporation tax as reported in the income statement</b>	<b>59 538</b>	<b>64 423</b>

### Tax proof

The reconciliation between the theoretical tax expense of 29.58% (which corresponds to the rate applicable to the parent company and the actual tax recorded in in income statement) and the effective tax expense of 28.21% at the end of 2019 is as follows:

(in € thousands)	31 décembre 2019	31 décembre 2018
<b>Consolidated income before taxes</b>	<b>211 040</b>	<b>202 335</b>
Theoretical tax rate	29,58%	29,58%
<b>Tax at theoretical tax rate</b>	<b>62 426</b>	<b>59 851</b>
Contribution of companies booked at equity	(4 095)	(3 781)
Impact of differences between Group and local tax rates	(432)	2 999
Local specific taxes	5 000	6 327
Net tax on other items non taxable or non deductible	(866)	(2 981)
Dividends	3 995	2 532
Corrections and adjustments on prior years periods	(8 867)	4 718
Deferred tax assets unrecognized and provisions for tax uncertainties	3 705	(4 812)
Other permanent differences	(1 328)	(430)
<b>Tax at effective tax rate</b>	<b>59 538</b>	<b>64 423</b>
<b>Effective tax rate</b>	<b>28,21%</b>	<b>31,84%</b>

The main variances are due to:

- the differences in tax rates, due to the presence of the Group in countries which have different theoretical tax rates;
- the share of the non-deductible costs and charges for the dividends received outside the French Tax Group;
- permanent differences (mainly taxation without basis and unrecognized tax losses);
- reduced rates;
- specific tax positions (mainly adjustments on prior year periods of tax losses).
- the write-off of DTL on the intercompany sale of Convergence Software from EH DE to EH AG for €6.8 million.

## Note 27

## Dividends

The Board of Directors will propose to the Shareholders' Meeting of May 13, 2020 the payment of a dividend of €80 million for the 2019 financial year. Following the crisis linked to the Covid-19 pandemic, the payment of the dividend of 80 million euros will not take place in 2020.

## Note 28

## Related parties

Euler Hermes SA (NV) is owned by the Euler Hermes Group. The Group is mainly owned by Allianz France SA, which in turn is wholly owned by the Allianz Group.

The breakdown of the Euler Hermes SA (NV) shareholding is as follows:

	Number of shares	%
Euler Hermes Group	2 846 815	97,32%
Treasury shares	78 340	2,68%
<b>Total</b>	<b>2 925 155</b>	<b>100%</b>

## Transactions

(in € thousands)

	December 31, 2019				December 31, 2018			
	Allianz SE & other Allianz companies	EH Group <sup>(1)</sup>	Allianz France SA	Related companies and joint ventures	Allianz SE & other Allianz companies	Allianz Belgium	Allianz France SA	Related companies and joint ventures
Earned premiums	24 999	(52)	-	177	19 675	1 356	-	398
Insurance services expenses	(7 626)	(1)	-	30	(6 621)	83	-	(1 027)
Net outward reinsurance income or expenses	(10 086)	(204 556)	-	(8 962)	(12 244)	(312 414)	-	(16 915)
Financing expenses	(111)	(39)	-	-	(86)	(111)	-	-
Other net income/(expenses)	(21 717)	(339)	-	261	(19 749)	1 820	-	(99)
thereof contract acquisition expenses	(12 946)	(41)	-	59	(10 566)	(127)	-	(99)
thereof change in fair value of investments recognised at fair value through profit or loss	(443)	-	-	-	(1 379)	-	-	-
thereof net investment income	71	(302)	-	202	(33)	(150)	-	-
thereof other net operating income (expenses)	(8 399)	4	-	-	(7 771)	2 098	-	-

(1) Mainly including reinsurance-related transactions

## Receivables and liabilities

(in € thousands)

	December 31, 2019				December 31, 2018			
	Allianz SE & other Allianz companies	EH Group	Allianz France SA	Related companies and joint ventures	Allianz SE & other Allianz companies	Allianz Belgium	Allianz France SA	Related companies and joint ventures
Financial Investments	172	(12)	-	19 818	173	(11)	-	7 904
Current accounts (accrued interests included)	43 232	-	-	-	24 779	-	-	-
Net operating receivables	3 107	28 371	222	3 287	2 472	45 141	153	3 357
Borrowings (accrued interests included)	(290)	(101 637)	-	-	(5 169)	(29 833)	-	-
Operating liabilities	(5 939)	(36 775)	-	(1 900)	(7 478)	(37 948)	(23)	(1 850)

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.

## Remuneration of board members

A total of €150,000 was recognized in the consolidated income statement in 2019 for direct and indirect remuneration and pensions allocated to directors and managers.

### 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. From 2003, Allianz issued Restricted Stock Units (RSU) with a vesting period of four or five years. The remuneration is granted by each entity concerned in accordance with the conditions set by Allianz. The reference price of each RSU for the remuneration of the beneficiaries is the average trading price of Allianz shares over the ten trading days immediately preceding Allianz's Annual Shareholders' Meeting.

#### Characteristics of the RSU plans

	RSU plans					Mars 2019
	March 2015	March 2016	March 2017	March 2018	March 2019	
Fair value at 31 december 2019 (in € per share)	0,00	218,40	208,86	198,55	187,59	
	0,00	0,00	0,00	0,00	0,00	
(in € thousands)						
<b>Total commitment</b>	-	1 712	1 430	4 446	5 203	12 791
	-	-	-	-	-	-
<b>Opening commitment</b>	1 012	996	613	1 062	-	3 683
Charge recognised during the period	150	659	478	1 289	1 654	4 230
Exercise of RSU	(1 162)	-	-	-	-	(1 162)
<b>Closing commitment</b>	(0)	1 655	1 091	2 351	1 654	6 750

#### RSU

On the exercise date, after a four-year vesting period, Allianz can choose to remunerate the RSU in cash or to allocate Allianz shares or other securities granting access to the capital. If it opts for 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 for the year ended December 31, 2019

The fair value of the liabilities resulting from 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 spread five years or four years for the RSU. As at December 31, 2019, the liability relating to the RSU still to be exercised amounted to €6,750 thousand.

#### Information on plans currently in effect

Allocation date	Year ended December 31, 2019				
	RSU at the opening	RSU granted	RSU cancelled	RSU exercised	RSU transferred
March 2015	5 999	-	-	(5 999)	-
March 2016	7 839	-	-	-	-
March 2017	6 927	-	-	-	(78)
March 2018	22 609	-	-	256	(475)
March 2019	-	27 947	-	-	(212)

**Group employees (contracted headcount)**

The breakdown of Group employees by region is as follows:

(in number of employees)	December 31, 2019	December 31, 2018
Germany & Switzerland	993	1 025
France	767	789
Northern Europe	1 362	1 400
Mediterranean Countries & Africa	552	557
America	61	57
Asia Pacific	322	263
Service entity	392	383
<b>Total Euler Hermes Group</b>	<b>4 449</b>	<b>4 474</b>

The staff numbers shown correspond to the contracted headcount at the closing date. For companies proportionately consolidated, the headcount shown to their share in the consolidated accounts. Employees of equity associates are not included.

**Staff expenses**

(in € thousand)	December 31, 2019	December 31, 2018
Staff expenses	(420 618)	(400 228)
Employee profit-sharing and bonuses	(9 729)	(8 380)
<b>Total personnel expenses</b>	<b>(430 347)</b>	<b>(408 608)</b>

Staff costs increased and totaled €430 million in 2019 against €409 million in 2018 due to general increase of wages, higher bonuses paid, higher profit sharing level and the entry of the World Agency in the scope.

## Note 31

## Commitments given and received

(in € thousand)	December 31, 2019	December 31, 2018
<b>Commitments received</b>	<b>4 326</b>	<b>4 819</b>
Deposits, sureties and other guarantees	4 326	4 819
<b>Commitments given</b>	<b>119 806</b>	<b>115 243</b>
<b>Deposits, sureties and other guarantees</b>	<b>119 806</b>	<b>115 243</b>
thereof commitments guarantees for the benefit of policyholders	80 411	76 249
thereof commitments to invest in different investment funds	3 966	20 216
thereof guarantee CACIB	3 284	3 284
thereof commitment guarantee to Allianz China General Insurance Co Ltd	23 660	5 733
thereof commitments to Allianz Global Risk US Insurance Company	1 946	3 951
thereof commitments associated with membership of an EIG	3 263	3 562
thereof others	3 277	2 248

The Group is committed to guaranteeing for the benefit of certain policyholders, administrator and custodians the payment upon default of payment by EH Brazil for a guaranteed amount of €80 million at end December 2019.

The Group is committed to investing directly or through co-investments in mutual funds. The commitment totals €3,966 thousand at end December 2019 against €20,216 thousand at end December 2018.

A commitment amounting to €3,284 thousand has been given since 2012 in the form of autonomous first demand guarantee in favor of the CACIB Company as a security deposit for rental of Tour First in La Défense.

In 2016 and 2019, the Group issued guarantees to Allianz China General Insurance Co Ltd in order to meet the new insurance regulation in China that requires the local insurer (i.e. Allianz China) to obtain a bank guarantee from the reinsurer (Euler Hermes Group) to meet its risks or capital requirements. The commitment amounts to €23,660 thousand at end December 2019.

### Letter of comfort Export Credit Guarantee business

Euler Hermes Germany manages the official export credit guarantee scheme on behalf and for the German Federal Government. With effect from January 1st, 2014 this business was transferred from Euler Hermes Deutschland AG (now Euler Hermes Deutschland, branch of Euler Hermes SA (NV)) to Euler Hermes AG (the former Euler Hermes Forderungsmanagement AG). Due to this switch Euler Hermes Deutschland signed a binding letter of comfort to the German Federal Ministry for Economic Affairs and Energy. Euler Hermes Deutschland assures that Euler Hermes AG will be capable to fulfill its duties towards the federal government resulting from the business until January 1st, 2014 for 5 years.



## Note 32 Auditors' fees

(in € thousands)	PwC		PwC	
	2019	2018	2019	2018
	Amount		%	
<b>Audit</b>				
i) Statutory audit and report on company and consolidated financial statements	2 174	2 096	97%	99%
ii) Other services directly related to appointment as Statutory Auditor	46	3	2%	0%
<b>Subtotal</b>	<b>2 220</b>	<b>2 099</b>	<b>99%</b>	<b>99%</b>
<b>Other services provided to fully-consolidated subsidiaries</b>				
Legal, tax and social	22	13	1%	1%
<b>Total</b>	<b>2 242</b>	<b>2 112</b>	<b>100%</b>	<b>100%</b>

## Note 33 Subsequent events

The covid 19 virus, which appeared in the Wuhan region of China, has quickly spread around the world to the point where it is now considered to be a pandemic by the World Health Organization. In order to slow down the spread of the virus, almost all the countries where the Euler Hermes group is present have taken measures to contain the population and restrict non-essential activities. These measures, as necessary as they are in terms of health, significantly slow down economic activity and will cause a slowdown in trade and an economic recession. The extent of the latter will no doubt depend on the duration of the containment measures.

At present, the exact consequences of this crisis are unknown. What we can say can be summarized as follows:

- The Euler Hermes group has activated its business continuity plans around the world and introduced remote work from home as a rule. Critical IT systems are subject to specific monitoring and show their solidity. All of this confirms that the Euler Hermes group as a whole is operational.
- As mentioned above, the health effects of the virus and the measures taken by the authorities to slow its spread are likely to lead to a recession. Conventionally, the impact of a recession on the income statement of a credit insurer is twofold:
  - Decrease in turnover on one hand, as a large part of the premiums collected is based on the turnover of the insured;
  - Increase in claims on the other hand, induced by the higher number of business failures in a context of recession; the classic response of the credit insurer is an even greater vigilance in the granting and monitoring of its commitments, resulting in a contraction of these commitments.
- None of the effects described above are really visible as of today April 21. The Group has defined a central scenario on which its commitment action plans will be based. The central assumptions adopted are that the turnover should drop by around 7%, and the current claims increase by 10%. Current events will therefore be likely to significantly affect the solvency of the company, without however affecting the alert thresholds which would lead to actions. They should add that many countries in the European Union have seen discussions between government and the credit insurance sector to try to reconcile general interest and solvency of insurers. The solutions considered are diverse, and range from "Cap", a top-up guarantee already used in 2009, to other solutions where the States plan to vouch for the sector's commitments.
- Finally, the ongoing uncertainties deeply affected the financial markets. In order to reduce the equity risk to which the company is exposed, via its subsidiary Euler Hermes Patrimonia, disposals of the equity portfolio were made gradually during the month of March, reducing the book value of the shares held by this subsidiary by more or less EUR 300mn to around EUR 100mn. The remaining portfolio is covered by put options which are now in the money. This divestment cost EUR 49mn in losses, but helped strengthen the group's liquidity. The latter is not currently perceived as a major risk.

The Board, based on the elements mentioned above, concludes that the covid 19 crisis should not give rise to an adjustment to the accounts closed on December 31, and has no impact on them. Going concern is not questioned.

## Major risk factors and their management within Euler Hermes SA (NV)

### Risk factors

The risks described below are inherent to the nature of Euler Hermes SA (NV)'s operations and its economic, competitive and regulatory environments. In view of the numerous contingencies and uncertainties associated with these risks, senior management is not always able to quantify their impact accurately. To prevent, detect and manage risks on an ongoing basis, Euler Hermes SA (NV) has implemented numerous risk management processes, procedures and controls. These processes, like any control and monitoring system, cannot be considered as an absolute guarantee. Rather, they offer a reasonable assurance of security in respect of operations and of control over results.

The Risk Management structure is described in the second section of this disclosure of this document. In cases where the risks described below may have measurable financial consequences or significant potential liabilities, these factors are reflected in Euler Hermes SA (NV)'s consolidated financial statements in accordance with the applicable IFRS (international financial reporting standards). The risks described below are classified on the basis of their origin.

This presentation aims to reflect senior management's current views on the potential consequences of each risk for Euler Hermes SA (NV). While senior management devotes significant resources to risk management on an ongoing basis, as described in of the second section of this disclosure in this document, Euler Hermes SA (NV)'s risk management activities, like any system of control, are subject to inherent limits and cannot provide absolute certainty or protection against all risks described below or all losses potentially caused by these risks.

### The prevailing and future economic environment

By nature, Euler Hermes SA (NV)'s business is directly related to economic activity.

Today's challenging economic environment has various effects described hereinafter, some of which may conflict with each other:

- a decline in premium income stemming from a downturn in economic activity, leading to a reduction in policyholder turnover – used as the basis for calculating the insurance premium – or a loss of policies (termination of unprofitable policies by the Group, default by policyholders, termination by policyholders, etc.);
- an increase in the frequency of claims and an increase in the severity of peak claims.
- the declaration of claims on companies that are in good financial health, but are unable to transfer capital to their creditor outside of their country.

Other economic factors could affect the economic environment, in particular higher oil prices, or the euro-dollar exchange rate.

To address this risk, Euler Hermes SA (NV) acts in four ways to reduce the sensitivity of its results to the economic environment:

- more precise monitoring of granted limits, aimed at limiting the losses borne jointly by policyholders, reinsurers and Euler Hermes SA (NV);
- diversification of sector and geographical risks;
- product diversification through the introduction of service products less closely correlated to activity;
- implementation of a risk transfer policy (reinsurance) to reduce the effects of a higher claims frequency and to limit the severity of peak risks.

Ongoing difficult economic conditions may have a negative impact on Euler Hermes SA (NV)'s net income, financial strength, solvency margin, share price and, potentially, reputation.

Given the Eurozone situation, the large proportion of Euler Hermes SA (NV) business generated in Europe could be an aggravating factor for this risk. However, Euler Hermes SA (NV) has taken measures to reduce its dependency on the European market.

### Natural and human catastrophes

The proliferation of weather events worldwide, not to mention other risks such as acts of terrorism, nuclear events, the emergence and spread of pandemics and the impact of future climate change could, in addition to their immediate damage and impact, have a material impact on insurers' operations as well as their current and future results.

While past experience shows that such events have little impact on its results, Euler Hermes SA (NV) cannot rule out the possibility that such events could affect its net income in the future.

### Sanctions regimes

The sanctions regimes imposed by the United Nations, the European Union, the United States or other individual governments continue to evolve. The dynamic nature of these regulatory frameworks requires EH SA (NV) to permanently monitor and adjust its customer services when necessary.

EH SA (NV) has established a range of processes and tools (including screening, policy terms and restrictions of limits granted) to ensure its compliance with the various sanctions regimes.

However, the EH SA (NV) cannot rule out:

- being subject to control or even being in disagreement with the authorities controlling its activities in countries under sanctions regimes;
- being the target of legal proceedings by a policyholder or one of its customers due to measures taken in response to sanctions regimes;
- being subject to internal or external fraudulent activity aimed at circumventing sanctions regimes.

In addition to the above points, the application of sanctions has the following effects on the Group's activity:

- reducing its activity in the country concerned due to the cancellation of certain policies, even policies signed in other countries, as policyholders may no longer have coverage in the country under sanction;
- increased claims in the country under the sanctions regime;
- increased claims in the countries or business sectors that might be subject to counter-sanction by a country under a sanctions regime.

The establishment of these sanctions regimes might lead to a decrease in the EH SA (NV)'s net income consequently to the increased cost of demonstrating compliance with the sanctions regimes or to a reduction in its activity and to increased claims due to the implementation of these sanctions regimes (or counter-sanctions) ; it could lead to reputational risk or to fines if its operational processes fail to manage these sanctions regimes.

### **Regulatory impact and failure of risk insurance subscription processes**

The management of credit-insurance and bonding risk is based on a strong risk culture associated with contract management and customer service. In addition to managing the underwriting of contracts, Euler Hermes SA (NV) provides a service to policyholders to reduce receivables-related risks. During the period of insurance, all requests for insurance cover on a given customer are analyzed by applying specific solvency criteria (financial analysis, prior claims to the customer in question). Cover is then issued based on the risk profile of the commercial transaction associated with the request.

Credit-insurance risk management processes are based on analyzing the solvency of the policyholder's customers using all gathered information.

This analysis involves the following elements:

- the possibility of gathering or purchasing information about EH SA (NV)'s policyholders' customers;
- the correct functioning of a centralized information system gathering information and requests for cover;
- the establishment and consistent application of written rules governing the analysis of information gathered and decisions on requests for cover;
- the control of the application of these rules following the principle of three lines of defense.

A failure of one of the processes or tools in place, or change in the statutory or regulatory requirements under which such operations are carried out, could have an impact on net income or financial strength. They could also lead to statutory or regulatory fines. Lastly, they could have consequences in terms of reputation.

### **The possibility of recording losses in the event that assumptions used to determine insurance reserves materialize**

Determining insurance reserves, including reserves for premiums not yet written or reserves for un-notified claims, is based on inherently uncertain elements derived from assumptions about future changes in factors that may be (i) economic, demographic, social, legislative, regulatory, financial, (ii) linked to the conduct of the policyholder or its customer, or (iii) dependent on the anticipation of the nature of the claims (frequency claims vs. peak claims).

The use of these numerous assumptions and their revision require a high degree of assessment by Euler Hermes SA (NV)'s management bodies. They might influence the level of reserves determined and might have a negative impact on the net income, financial position, solvency margin and valuation of Euler Hermes SA (NV).

### **Failure of reinsurers or reinsurance processes**

The level of theoretical coverage granted by Euler Hermes SA (NV) is not based solely on its available capital.

The level of theoretical exposure is based on the fact that some of the claims arising from this exposure will be transferred to external reinsurers by means of reinsurance contracts structured by type, quality and exposure. These reinsurance contracts are defined to cover one year of subscription.

It should be taken into account that the act of transferring some of the risks borne by Euler Hermes SA (NV) to reinsurance does not

release it from its obligation to indemnify its policyholders.

In practical terms, Euler Hermes SA (NV) is subject to the following risks:

- insolvency of one of its reinsurers;
- inability to place its reinsurance contracts at acceptable prices;
- failure in the process of applying reinsurance contracts that leads to a loss of the benefit of the cover purchased.

Euler Hermes SA (NV) has put management rules in place in order to be sure of the solvency of its reinsurers and guarantee a good level of diversification in its ceded claims. Nevertheless, it is possible that one or more reinsurers may no longer be able to meet its/their commitments, leading to a rise in Euler Hermes SA (NV)'s own losses.

In addition, reinsurance capacity and the pricing of reinsurance agreements depend on prevailing economic conditions, and can vary substantially. As such, Euler Hermes SA (NV) might have difficulty in purchasing reinsurance at acceptable prices.

Finally, precise rules governing risk subscription within the limits of the reinsurance contract are applied and updated each year.

The materialization of one of these risks could have a long-term effect on Euler Hermes SA (NV)'s activity, net income and solvency margin.

### **The loss of the authorization to use an internal model**

Management of credit insurance and bonding risk is relatively more capital intensive than any other insurance business segments. Because of a significant difference between its risk profile and the profile used by the EIOPA for the standard formula, the Group has established an internal model and obtained authorization to use this internal model by its European regulators.

The loss of the authorization to use an internal model could lead Euler Hermes SA (NV) to revise its underwriting policy for the risk covered and, as a result, have impacts on its commercial policy, or require a search for other sources of capital (capital increase or equivalent, increase in outwards reinsurance or equivalent, etc.). Over time, Euler Hermes SA (NV)'s net income and valuation could be affected.

## **Risk factors related to financial markets, the soundness of credit rating, the valuation of assets and other related aspects**

The risk factors described in this section particularly affect the risks described in greater quantitative detail in section 1.2.3.

### **Risks related to the investment portfolio**

The risks described below could have negative impacts on current and future net income, cash flows, financial position and, in some cases, Euler Hermes SA (NV)'s price, in case they materialize.

#### **i. Interest rate risk**

As its portfolio is invested primarily in bonds (national, supranational and, to a lesser extent, corporate), Euler Hermes SA (NV) is subject to interest rate risk.

During periods of declining interest rates, the risk is that the portfolio's average interest rate could fall (reinvestment being made at lower rates) or that the portfolio duration could increase (making the portfolio more sensitive to future changes in interest rates).

During periods of rising interest rates, the risk is that the market value of the bond portfolio could decline, possibly resulting in unrealized losses.

Euler Hermes SA (NV) has implemented an asset management policy aimed at minimizing these risks, including asset-liability management factoring in all local constraints.

#### **ii. Equity market risk**

As part of its portfolio is invested in equities (or equity equivalents), Euler Hermes SA (NV) is exposed to a decline – whether short- or long-term – in the equity markets. This could result in Euler Hermes SA (NV) having to record unrealized losses or asset impairments.

Euler Hermes SA (NV) has implemented an asset management policy aimed at selecting high-quality issuers and diversifying risk in this asset class both by country and by sector.

#### **iii. Real-estate risk**

Euler Hermes SA (NV) is exposed to real-estate risk via the buildings that house its operations, as well as its investment properties.

The risk is that market values may fall and as such reduce the unrealized capital gains on these buildings or even lead to recorded unrealized losses.

#### **iv. Counterparty risk**

Default by financial institutions and third parties in general, including potential defaults on sovereign debt payments or restructurings, could lead to losses on, or impairment of invested assets, or to unrealized losses, which could all harm the value of Euler Hermes SA (NV)'s investments and reduce profitability.

Euler Hermes SA (NV) has implemented management rules to diversify risk (geographical as well as sectoral) and to reduce the risk of default by investing in counterparties boasting robust financial health.

### **Downward revision of financial ratings**

Ratings related to financial strength have become increasingly 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, the Group's current ratings are subject to change.

Standard & Poor's and Moody's confirmed Euler Hermes (NV)'s AA (outlook stable) and Aa3 (outlook stable) rating in December 2019.

A rating downgrade – actual or potential – and, more importantly, a fall in the S&P rating below AA, could have adverse effects on Euler Hermes SA (NV), by:

- i. undermining its competitive position;
- ii. hindering the distribution of new insurance policies;
- iii. increasing the rate of termination of existing insurance policies;
- iv. raising the cost of reinsurance;
- v. limiting its access to sources of funding or increasing the cost of such funding;
- vi. imposing the need to provide additional guarantees for certain contracts;
- vii. having an adverse impact on relations with creditors or trading counterparties;
- viii. having a significant impact on public confidence.

Each of these scenarios could have a negative impact on the business, liquidity level, consolidated net income, revenues and financial position of Euler Hermes SA (NV).

### **Exchange rate fluctuations**

Euler Hermes SA (NV) is exposed to exchange rate fluctuations due to:

- the presence of branches and subsidiaries outside the Eurozone operating in other currencies such as the British pound;
- a branch / subsidiary granting limits in a currency that is not the branch's accounting currency.

To reduce its exposure to exchange rate fluctuations, Euler Hermes SA (NV) applies the principle of congruence (matching assets and liabilities denominated in a different currency from the currency used for its accounting).

Moreover, Euler Hermes SA (NV) has no investments in foreign currencies for speculative purposes.

At the end of 2019, Euler Hermes SA (NV) had limited positions on hedging instruments to protect against exchange rate fluctuations.

### **Market conditions, changes in accounting principles and other factors could affect the recognized value of goodwill.**

Euler Hermes SA (NV) accounting principles and policies, along with the analysis of intangible assets (including goodwill) are set out in Notes 2, 3 and 4 in this document.

Changes in the business and the market may affect the value of the goodwill recognized in the consolidated statement of financial position, the amortization of Deferred Acquisition Costs (DAC) and the valuation of deferred tax assets of Euler Hermes SA (NV).

Deterioration in the operating performance of companies or market conditions could accelerate the amortization of DAC or reduce the assets leading to a reduction in consolidated net income and weakening Euler Hermes SA (NV)'s financial position.

## **Risk factors within Euler Hermes SA (NV)**

### **Risk assessments made by Euler Hermes SA (NV) and its governing bodies**

Determining the amount of reserves and impairments is based on periodic assessments and estimates of the known and inherent risks of each underlying event. These assessments and estimates are revised as conditions change or as new information becomes available.

Euler Hermes SA (NV)'s governing bodies, in the light of this information and in accordance with the accounting principles and methods set out in the consolidated financial statements (see Note 2 "IFRS accounting and valuation rules" in the notes to the consolidated financial statements), make decisions on the appropriate level of reserves and impairments to set up. These decisions are taken based on their analysis, and the assessment and appraisal of the causes and consequences of any changes affecting previous risk estimates.

However, Euler Hermes SA (NV) cannot guarantee that its management bodies have correctly estimated the level of impairment and the reserves recognized in the financial statements or that additional impairments or reserves may not negatively affect Euler Hermes SA (NV)'s net income and financial position.



## **Reduction in the growth of Euler Hermes SA (NV)'s businesses**

Growth observed in recent years, both organic and acquisition-driven, may, despite the strategic expansion objectives of the management bodies, not continue or may not be in line with expectations, mainly due to challenging conditions in the financial markets and changes in economic conditions.

Euler Hermes SA (NV) has implemented initiatives to enter new markets either by expanding its existing credit insurance business in new geographical areas in which Euler Hermes SA (NV) was not previously present or where its earlier presence was only marginal, or in the form of new products related to credit insurance.

Maintaining a high level of development could, however, be affected by changes in current regulations or tax legislation.

Any inability on the part of Euler Hermes SA (NV) to capitalize on innovative products and on partnerships or new methods of distribution, to deploy them within Euler Hermes SA (NV) and develop them in accordance with its objectives, could adversely affect the growth of Euler Hermes SA (NV) business.

## **Euler Hermes SA (NV)'s geographic diversity**

Euler Hermes SA (NV) markets its products and services in Europe, Asia, Gulf countries and Russia and certain African countries through various legal structures and distribution channels, including majority- or minority-owned subsidiaries, partnerships with insurance companies or banks, agents and independent brokers.

The diversity of Euler Hermes SA (NV)'s international presence exposes it to very different and often widely fluctuating economic, financial, regulatory, commercial, social and political environments, which could potentially affect demand for its products and services, the value of its investment portfolio or the solvency of its local business partners.

The successful implementation of Euler Hermes SA (NV)'s overall strategy may be hampered by the environment in some countries in which it operates, with adverse effects on its net income and financial position.

## **Off-balance sheet commitments and residual**

Euler Hermes SA (NV) may occasionally retain insurance and reinsurance liabilities or other off-balance sheet commitments stemming from the sale or liquidation of various activities, or be required to provide guarantees and undertake other off-balance sheet transactions.

If the existing reserves for such obligations and liabilities are insufficient, Euler Hermes SA (NV) may have to record additional charges that may impact its net income significantly.

For more information, see Note 31 of the consolidated financial statements relating to commitments given and received.

## **Operational failures or inadequacies**

Euler Hermes SA (NV)'s activity is based very heavily on its processes and information systems.

As such, Euler Hermes SA (NV) makes considerable efforts to maintain and modernize its information systems and the efficiency of its processes. In particular, Euler Hermes SA (NV) ensures that its processes and information systems are consistent with industry, regulatory and technological standards and with the preferences of its policyholders.

However, Euler Hermes SA (NV) is exposed to operational risks that are inherent to its business and which may be of human, organizational, material or natural origin, or result from other events within or outside Euler Hermes SA (NV). These operational risks could materialize in various forms and, mainly be the following: interruptions or failures of information systems used by Euler Hermes SA (NV); fraud or malice on the part of its employees, policyholders or intermediaries; non-compliance with internal and external regulations; hacking of its information systems, etc.

While Euler Hermes SA (NV) strives to achieve better management of all of these operational risks in order to limit their potential impact, they could result in financial losses, a deterioration in the Group's liquidity, disruption of its activity, regulatory sanctions or damage its reputation.

## **Risk factors related to the regulatory or competitive environment**

### **A highly competitive environment**

Euler Hermes SA (NV) operates in a highly competitive market, in which other players are sometimes subject to different regulations, use multiple distribution channels and offer more competitive prices than those of Euler Hermes SA (NV). In addition, several products offer an alternative to credit insurance and widen the coverage possibilities available to customers.

In view of this competitive pressure, Euler Hermes SA (NV) may need to adjust the prices of some of its products and services or its policy for underwriting risks, which could affect its ability to maintain or improve profitability and adversely affect its net income and financial position.

## **Changes in regulation**

Euler Hermes SA (NV)'s 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 SA (NV)'s range of insurance products.

In addition, the substitutability of export credit hedging is one of the classification factors for the Allianz group, as a group that is "too big to fail". Allianz group could decide to propose decisions that could lead to a reduction in this activity, which could affect the Group's attractiveness, net income or valuation.

## **Changes to local, European and international tax laws and regulations**

Changes to the tax legislation of countries in which Euler Hermes SA (NV) operates could have unfavorable consequences on its operations, cash flow position and net income.

In addition, such changes to tax laws and regulations, or operating performances below expected levels or occurring at different times, could lead to a significant change in Euler Hermes SA (NV)'s deferred tax assets and thus lead to a reduction in the value of certain tax assets or call their use into question.

This situation could have a material adverse impact on Euler Hermes SA (NV)'s net income and financial position.

## **Potential changes to international accounting standards**

Euler Hermes SA (NV)'s consolidated financial statements are drawn up in accordance with international accounting standards 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 (see Note 2 "IFRS accounting and valuation rules" in the notes to the consolidated financial statements.)

Plans to amend existing standards are being considered by the International Accounting Standards Board (IASB); some of them may have a significant impact (especially IFRS 9 and 17) on the financial statements of insurance companies and financial institutions. These potential changes could concern the recognition of both Euler Hermes SA (NV)'s assets and liabilities and its income and expenses in the consolidated income statement.

The impact of such changes is difficult to assess at this stage, but would be likely to affect Euler Hermes SA (NV)'s net income and financial position.

## **The variety of legal systems in the countries in which Euler Hermes SA (NV) operates**

In recent years, Euler Hermes SA (NV) has continued its international expansion in countries in which judicial and dispute resolution systems sometimes involve different timeframes from those that exist in Western Europe. As such, Euler Hermes SA (NV) may find it difficult to take legal action or enforce rulings. In such a situation, the possible legal implications could affect Euler Hermes SA (NV)'s operations and net income.



## Quantitative and qualitative notes relating to risk factors

### Risk Management structure

#### The Risk Management function

The responsibilities of the Risk Management function are as follows:

- to identify, measure and take part in the management of financial, insurance and operational risks;
- to define and monitor Euler Hermes SA (NV)'s appetite for these risks and to strengthen the risk-reporting process, risk limits and decision-making processes;
- to calculate the economic capital associated with the business. Economic capital is calculated by using an internal model, where the responsibility for developing the model is divided between Euler Hermes Group for risks associated with insurance activities, and Allianz Group for all other risks. Euler Hermes SA (NV) periodically analyzes the validity of this model for the risk profile specific to Euler Hermes SA (NV);
- to construct a favorable environment in terms of models, indicators, standards and culture for the various business lines, in order to underwrite risks in the context of the risk appetite validated locally and by Euler Hermes SA (NV);
- to maintain the authorization to use an internal model and complete all procedural operations for approval of the changes to the internal models with the supervisors in the framework of Solvency II;
- more generally, to implement all the actions necessary to create an effective "second line of defense" on all risks in connection with other key functions (internal audit, compliance and actuarial);
- to develop a risk culture within Euler Hermes SA (NV) through training and regular communication.

In order to fulfill these missions, this team operates totally independently. Although it does not have an operating function, it is closely associated with Euler Hermes SA (NV)'s management and decision-making processes. It relies on other Euler Hermes SA (NV) functions, at both the Euler Hermes SA (NV) and local levels, and in particular the commercial, financial, underwriting and claims management functions.

All activities and the results of risk analysis are regularly reported.

#### The Risk Management structure

Risk Management is organized around three levels:

##### 1) Euler Hermes SA (NV)'s senior management:

- defines and implements business strategy by delegation of the Supervisory Board ("*Conseil de Surveillance*") and/or the Management Committee ("*Directoire*"),
- defines and develops internal controls and the framework of the Risk Management function,
- ensures that the activity is consistent with the defined risk appetite.

Calls upon various committees to carry out its tasks, including the following:

- the Risk Committee,
- the Investment Committee,
- the Reinsurance Committee,
- the Sales Committees,
- the Risk Underwriting Committees;
- the Governance and Control Committee

##### 2) Risk Management is responsible for:

- defining and implementing the Risk Management system within the organization, particularly the risk governance rules,
- ensuring that all Euler Hermes SA (NV)'s branches and subsidiaries comply with these rules.

The Risk Management function is led by the Chief Risk Officer, who reports to the Chief Executive Officer.

The Chief Risk Officer and his/her team act independently and have no operational responsibilities.

The Risk Management function works closely with the Compliance and Ethics function, the Legal and Tax division and the Actuarial Function in order to establish a coordinated second line of defense.

### 3) The Internal Audit function:

- verifies independently and objectively that all processes implemented as part of Risk Management are properly defined and implemented, and suggests improvements where appropriate.

#### Risk Management at the local level

Risk Management in the branches and subsidiaries has the same mission and is organized identically as it is at Euler Hermes SA (NV) corporate level.

In particular, each branch and subsidiary defines a local risk appetite, in line with the Euler Hermes SA (NV)'s risk appetite, and manages its activity on the basis of its local risk appetite.

## Insurance risks

### Product approval

A Group-level Product Committee has been set up, that is responsible for approving all new products or changes to existing products.

This Product Committee is composed of the Group's main functions, especially Marketing, Commercial underwriting, Risk underwriting, Group Controlling, Reinsurance and Risk Management and Actuarial Function.

The Committee's purpose is to approve products from different perspectives (commercial, internal processes, profitability, impact on solvency, risks and reputation, etc.) and to make recommendations to the Management Committee.

### Underwriting of risk

The underwriting of risk takes place in two phases:

#### Signature of the insurance contract

The credit insurance contract contains all management rules and parameters of the relationship between Euler Hermes SA (NV) and the policyholder (deductible, maximum liability, etc.). These rules and parameters are differentiated depending on the risk profile of each policyholder. It also requires the policyholder to declare its unpaid invoices according to certain declaration timescales, and, during the insurance period, Euler Hermes SA (NV) and the policyholder are in regular contact, including managing customer limits as necessary. The principle of comprehensive coverage of the policyholder's revenues is one of the key elements for diversifying risk and limiting anti-selection phenomena.

#### Management of covers granted to policyholders

Euler Hermes SA (NV) has developed a risk business model to address insurance risk in the most efficient way.

The key elements of this risk business model are:

- Definition of the model by a Euler Hermes SA (NV) team;
- Local risk underwriting;
- Centralized control;
- A system for researching and collecting information on Euler Hermes SA (NV)'s policyholders' customers;
- A Group risk grading system;
- Specialized teams;
- A centralized IT system in which all policyholder requests are entered, and all granted limits and any information on the debtors are stored;
- Quality of service standards in the response to customers.

The following tables show most of Euler Hermes SA (NV)'s gross theoretical exposure, breaking it down into two segments:

1. the country in which the debtor is located<sup>(1)</sup> ;
2. the economic sector of the debtor <sup>(2)</sup>

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*(1) Euler Hermes Europe hedges the risk of non-payment of invoices delivered by a policyholder to its own customer. Consequently, the analyses are not based on the characteristics of the policyholder but rather its clients (or debtors).*

*(2) The figures presented in the table "the economic sector of the debtor" relate to Euler Hermes Group.*

## 1. The country in which the debtor is located <sup>(3)</sup>

(in € millions)	2019	%	2018	%	Change
<b>Total Europe</b>	<b>683 047</b>	<b>71,9%</b>	<b>702 050</b>	<b>73,0%</b>	<b>-2,7%</b>
of which :					
France	170 729	18,0%	190 973	19,9%	-10,6%
United-Kingdom	71 067	7,5%	69 684	7,2%	2,0%
Germany	162 723	17,1%	166 458	17,3%	-2,2%
Italy	83 034	8,7%	81 201	8,4%	2,3%
Belgium and Luxembourg	25 331	2,7%	25 087	2,6%	1,0%
Netherlands	24 431	2,6%	24 825	2,6%	-1,6%
Spain	19 191	2,0%	19 270	2,0%	-0,4%
Eastern Europe	45 448	4,8%	43 631	4,5%	4,2%
Scandinavia	33 254	3,5%	33 541	3,5%	-0,9%
Other Europe	47 838	5,0%	47 379	4,9%	1,0%
<b>Total Americas</b>	<b>162 400</b>	<b>17,1%</b>	<b>158 704</b>	<b>16,5%</b>	<b>2,3%</b>
of which :					
United States	122 388	12,9%	119 823	12,5%	2,1%
Canada	14 196	1,5%	13 748	1,4%	3,3%
Other Americas	25 816	2,7%	25 133	2,6%	2,7%
<b>Asia-Pacific</b>	<b>82 128</b>	<b>8,6%</b>	<b>77 482</b>	<b>8,1%</b>	<b>6,0%</b>
<b>Middle East</b>	<b>13 842</b>	<b>1,5%</b>	<b>14 007</b>	<b>1,5%</b>	<b>-1,2%</b>
<b>Africa</b>	<b>8 567</b>	<b>0,9%</b>	<b>9 361</b>	<b>1,0%</b>	<b>-8,5%</b>
<b>Total</b>	<b>949 983</b>	<b>100,0%</b>	<b>961 604</b>	<b>100,0%</b>	<b>-1,2%</b>

<sup>(3)</sup> The figures presented in the table "the economic sector of the debtor" are those of Euler Hermes Group.

## 2. The economic sector of the debtor <sup>(4)</sup>

(in € millions)	2019	%	2018	%	Change
Automotive manufacturers	43 090	4,5%	44 469	4,6%	-3,1%
Automotive suppliers	14 613	1,5%	14 685	1,5%	-0,5%
Chemicals	56 657	6,0%	57 780	6,0%	-1,9%
Commodities	19 302	2,0%	19 222	2,0%	0,4%
Computer & Telecoms	33 329	3,5%	32 260	3,4%	3,3%
Construction	114 569	12,1%	119 397	12,4%	-4,0%
Electronics	21 061	2,2%	21 596	2,2%	-2,5%
Food	114 976	12,1%	114 661	11,9%	0,3%
Household equipment	35 845	3,8%	36 147	3,8%	-0,8%
Software & IT services	25 428	2,7%	21 360	2,2%	19,0%
Energy	35 815	3,8%	36 552	3,8%	-2,0%
Pharmaceuticals	19 994	2,1%	18 901	2,0%	5,8%
Machinery & Equipment	60 257	6,3%	59 650	6,2%	1,0%
Metal	74 145	7,8%	77 277	8,0%	-4,1%
Paper	16 780	1,8%	17 901	1,9%	-6,3%
Retail	117 858	12,4%	118 671	12,3%	-0,7%
Services	84 949	8,9%	84 528	8,8%	0,5%
Textile	19 281	2,0%	20 390	2,1%	-5,4%
Transport	29 907	3,1%	27 738	2,9%	7,8%
Transport Equipment	8 427	0,9%	8 808	0,9%	-4,3%
Unknow	3 701	0,4%	9 610	1,0%	-61,5%
<b>Total</b>	<b>949 983</b>	<b>100,0%</b>	<b>961 604</b>	<b>100,0%</b>	<b>-1,2%</b>

<sup>(4)</sup> The figures presented in the table "The economic sector of the debtor" are those of the Euler Hermes Group.

## Reinsurance

The implementation of adequate reinsurance structures and their placing in the reinsurance market are important elements of Euler Hermes SA (NV)'s insurance and risk management activities.

Euler Hermes SA (NV) has given its reinsurance management and purchasing operations on the market to its reinsurance companies located in Switzerland (Euler Hermes Reinsurance AG) and Luxembourg (Euler Hermes Reinsurance).

Rules have been laid down to guide the purchase of reinsurance, and their application is subject to regular internal auditing.

In addition, a Reinsurance Committee comprising Euler Hermes SA (NV)'s Chief Executive Officer, Euler Hermes SA (NV)'s Chief Financial Officer, Euler Hermes Reinsurance AG's Chief Executive Officer, Euler Hermes SA (NV)'s Chief Risk Officer, and Euler Hermes SA (NV)'s Actuarial Function Holder makes recommendations to Euler Hermes SA (NV)'s Management Committee and Board of Directors.

Purchases of reinsurance are preceded by:

- Quantitative analysis to ensure that the proposed structures match the risk borne by Euler Hermes SA (NV), in terms of both frequency and severity, especially in the event of changes in the economic conditions in which Euler Hermes SA (NV) operates;
- Modeling of reinsurance structures as part of Euler Hermes SA (NV)'s internal solvency model and calculation of their impact on the allocation of capital;
- Analysis of the financial strength of reinsurers composing the reinsurance syndication panel.

## Claims management & reserving

One of the responsibilities of branches and subsidiaries as part of their insurance activities is to establish reserves to cover the occurrence of an incident resulting in an insurance claim. These reserves must be sufficient to guarantee the settlement of future claims.

To ensure that this process works correctly, Euler Hermes SA (NV) has defined and implemented written procedures for:

- Claims management, including the conditions for opening and settling a claim;
- Management of claims recoveries (both before and after settlement);
- Recognition of all transactions associated with determining the ultimate loss recorded by Euler Hermes SA (NV).

These rules are subject to regular review by the Group Claims department and periodic review by Internal Audit.

This process applies to each notified claim.

Euler Hermes SA (NV) has implemented a process of defining reserves Incurred But Not Reported (IBNR reserves) covering un-notified claims relating to the current and previous fiscal years. For the definition of this reserve, see the following section.

## Assessment of loss reserves

Claims reserves recorded at a given time result from three reserves:

- Reserves for notified claims, covering notified claims;
- IBNR reserves, covering un-notified claims relating to the current year;
- Expectations of future recoveries of settled claims.

The reserve for notified claims is subject to case-by-case analysis, as described in the preceding paragraph.

The determination of the IBNR reserves and expectations of future recoveries of settled claims result from periodic actuarial analysis conducted by the Corporate Actuarial Department of Euler Hermes SA (NV) and overseen by the Group Actuarial Function department.

The Group Actuarial Function department is also tasked with ensuring that the overall level of Euler Hermes SA (NV)'s reserves is sufficient to cover future claims, and to establish and verify the correct implementation of actuarial principles, with which the calculations of estimated reserves must be consistent.

The entire process is subject to periodic review by the Internal Audit department and by external auditors.

The rules for establishing reserves are consistent with local laws and regulations.

At the current time, the main actuarial methods used by the Group's subsidiaries are based on classical and internationally accepted methods (Chain Ladder, Bornhuetter Fergusson, etc.). These methodologies aim to define a reasonable range of estimates within which the Corporate Actuarial department set their recommended reserve level.

On the basis of this range calculated by actuaries, their recommendations and other analyses (actuarial or not), senior management sets the level of reserves to be adopted for each quarterly closing at meetings of the Loss Reserve Committee. Loss Reserve Committee meetings are held in each subsidiary and then at Euler Hermes SA (NV) level. They are held at least once per quarter, but can also be held in the event of a major event requiring a major revision to the level of reserves, such as a major claim.

Nevertheless, it should be noted that estimates are based mainly on assumptions that may differ from subsequent observations, particularly in the event of changes in the economic and legal environments, especially if they affect Euler Hermes SA (NV)'s main portfolios simultaneously.

## Claims/Premiums ratio

	2019	2018
Gross claims ratio	52.1 %	43.9 %
Net claims ratio	56.2 %	56.0 %

## Cost of claims

(in € thousands)	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Cost of claims for the current period</b>	<b>1 440 837</b>	<b>(1 029 309)</b>	<b>411 528</b>	<b>1 220 232</b>	<b>(823 015)</b>	<b>397 217</b>
of which, claims paid	317 376	(236 583)	80 793	259 300	(190 237)	69 063
of which, claims reserves	1 008 139	(770 094)	238 045	855 562	(624 069)	231 493
of which, claims handling expenses	115 322	(22 632)	92 690	105 370	(8 709)	96 661
<b>Recoveries for the current period</b>	<b>(117 009)</b>	<b>90 159</b>	<b>(26 850)</b>	<b>(95 563)</b>	<b>68 057</b>	<b>(27 506)</b>
Recoveries received	(6 132)	4 417	(1 715)	(13 461)	10 516	(2 945)
Change in reserves for recoveries	(110 877)	85 742	(25 135)	(82 102)	57 541	(24 561)
<b>Cost of claims from prior periods</b>	<b>(276 298)</b>	<b>188 206</b>	<b>(88 092)</b>	<b>(250 079)</b>	<b>173 158</b>	<b>(76 921)</b>
of which, claims paid	615 883	(442 654)	173 229	683 128	(487 846)	195 282
of which, claims reserves	(897 934)	641 519	(256 415)	(945 087)	670 033	(275 054)
of which, claims handling expenses	5 753	(10 659)	(4 906)	11 880	(9 029)	2 851
<b>Recoveries from prior periods</b>	<b>(43 454)</b>	<b>27 452</b>	<b>(16 002)</b>	<b>(80 500)</b>	<b>54 890</b>	<b>(25 610)</b>
Recoveries received	(100 667)	66 170	(34 497)	(126 799)	86 769	(40 030)
Change in reserves for recoveries	57 213	(38 718)	18 495	46 299	(31 879)	14 420
<b>Cost of claims</b>	<b>1 004 076</b>	<b>(723 492)</b>	<b>280 584</b>	<b>794 090</b>	<b>(526 910)</b>	<b>267 180</b>

## Technical reserves

(in € thousands)	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Claims reserves gross of recoveries</b>	<b>1 762 062</b>	<b>(1 252 951)</b>	<b>509 111</b>	<b>1 624 639</b>	<b>(1 102 665)</b>	<b>521 974</b>
Current period	1 070 498	(784 781)	285 717	904 743	(629 333)	275 410
Prior period	691 564	(468 170)	223 394	719 896	(473 332)	246 564
<b>Recoveries to be received</b>	<b>(288 511)</b>	<b>212 418</b>	<b>(76 093)</b>	<b>(233 834)</b>	<b>164 322</b>	<b>(69 512)</b>
Current period	(111 553)	86 346	(25 207)	(81 961)	57 448	(24 513)
Prior period	(176 958)	126 072	(50 886)	(151 873)	106 874	(44 999)
<b>Claims reserves</b>	<b>1 473 551</b>	<b>(1 040 533)</b>	<b>433 018</b>	<b>1 390 805</b>	<b>(938 343)</b>	<b>452 462</b>

(in € thousands)	December 31, 2019			December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Reserves for unearned premiums</b>	<b>441 976</b>	<b>(45 779)</b>	<b>396 197</b>	<b>395 496</b>	<b>(40 990)</b>	<b>354 506</b>
<b>Claims reserves</b>	<b>1 473 551</b>	<b>(1 040 533)</b>	<b>433 018</b>	<b>1 390 805</b>	<b>(938 343)</b>	<b>452 462</b>
of which, reserves for known claims	1 012 474	(679 942)	332 532	1 034 683	(676 347)	358 336
of which, reserves for late claims	651 102	(540 430)	110 672	499 682	(403 623)	96 059
of which, reserves for claims handling expenses	98 439	(32 579)	65 860	90 277	(22 695)	67 582
of which, other technical reserves	47	1	48	(3)	1	(2)
of which, recoveries to be received	(288 511)	212 417	(76 094)	(233 834)	164 321	(69 513)
<b>No-claims bonuses and rebates</b>	<b>164 457</b>	<b>(106 938)</b>	<b>57 519</b>	<b>155 586</b>	<b>(99 362)</b>	<b>56 224</b>
<b>Technical reserves</b>	<b>2 079 984</b>	<b>(1 193 250)</b>	<b>886 734</b>	<b>1 941 887</b>	<b>(1 078 695)</b>	<b>863 192</b>

## Claims developments

For a specific attachment year, claims developments follow a process of claims declaration, payment and recovery. This process can run over many years.

The triangles for liabilities arising from insurance contracts are reported gross of reinsurance, when considering that the reinsurance contracts are mostly Quota Share and the reinsurance relation is almost exclusively with a sister company, namely EH Re AG, presenting the triangles gross of cession does not change the fair presentation of the disclosures.

The following tables show:

### a) The development of the ultimate cost of claims per attachment and development year

Estimated final cost of claims for the majority of group entities (before reinsurance) <sup>(1)</sup>

(in € thousands)

Accident/ development year	1	2	3	4	5	6	7	8	9	10	Difference <sup>(2)</sup>	% Diff
2010	814 478	632 712	602 500	587 032	588 961	588 623	585 974	581 040	577 027	572 955	241 523	29,7%
2011	925 200	826 712	798 938	772 699	754 178	746 910	730 625	722 179	720 797		204 403	22,1%
2012	1 175 321	1 158 405	1 080 767	1 066 815	1 049 357	1 034 324	1 021 488	1 009 259			166 062	14,1%
2013	1 068 413	1 051 750	927 668	908 190	894 749	899 332	883 130				185 283	17,3%
2014	998 200	1 025 454	943 443	922 610	900 729	882 866					115 334	11,6%
2015	1 064 450	1 064 377	1 013 931	989 114	968 403						96 046	9,0%
2016	997 365	921 537	837 419	830 126							167 239	16,8%
2017	1 064 883	904 878	796 147								268 735	25,2%
2018	1 123 298	998 897									124 402	11,1%
2019	1 322 483											

(1) All figures (Current & Previous years) and when necessary have been converted based on the End of the Year 2019 Euro conversion rate

(2) Variance: Surplus or shortfall of the latest estimated claims cost over the initial estimated cost for specific year

## b) The development of paid claims per attachment and development year

Development triangles for cumulative claims paid net of recoveries for most group entities (before reinsurance) <sup>(1)</sup>

(in € thousands)

Accident/ development year	1	2	3	4	5	6	7	8	9	10
2010	204 236	470 271	510 735	533 234	556 454	564 134	567 240	567 123	567 141	566 496
2011	246 780	656 037	717 862	725 297	728 213	727 517	716 743	718 187	718 243	
2012	495 276	933 082	965 291	975 799	989 294	984 665	1 045 129	1 040 837		
2013	325 824	772 435	835 050	852 108	849 951	856 678	857 231			
2014	281 467	712 332	799 561	834 040	851 373	847 971				
2015	233 812	779 107	870 304	915 121	932 719					
2016	228 125	660 727	722 134	741 806						
2017	244 723	669 333	730 737							
2018	300 476	781 158								
2019	370 217									

(1) All figures (Current & Previous years) and when necessary have been converted based on the End of the Year 2019 Euro conversion rate

## Market risks

Market risk is the risk of losses that may result from fluctuations in the prices of the financial instruments comprising Euler Hermes SA (NV)'s investment portfolio.

### Interest rate risk

Interest rate risk measures how sensitive asset and liability values are to changes in the interest rate 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.

Bond portfolio at fair value by maturity (in € millions)	December 31, 2019		December 31, 2018	
	AMOUNT	%	AMOUNT	%
0 to 1 year	186	13 %	269	20 %
1 to 5 years	932	65 %	838	61 %
5 to 10 years	286	20 %	255	18 %
Beyond 10 years	35	2 %	16	1 %
<b>TOTAL</b>	<b>1 438</b>	<b>100 %</b>	<b>1 378</b>	<b>100 %</b>

### Exchange rate risk

Exchange rate risk measures the sensitivity of assets and liabilities to changes in currencies other than the reporting currency in which assets and liabilities are recorded in the statement of financial position.

Euler Hermes SA (NV) faces exchange rate risk in various ways, mainly in the event of:

- Limits granted for a policyholder in a currency other than the reporting currency, which may lead to cash or reserve changes (as part of claims management or debt collection procedures) that are not recognized in the reporting currency;
- Reinsurance in a currency other than the reporting currency;

- Investment in a currency other than the reporting currency;
- The presence of branches or subsidiaries operating in a currency other than the reporting currency of the parent company.

To limit exchange rate risk, and in accordance with rules laid down by local regulators, the congruence principle, i.e. the matching of assets and liabilities at the local level, is applied.

Financial portfolio of Euler Hermes SA by currency (in € millions)	December 31, 2019		December 31, 2018	
	AMOUNT	%	AMOUNT	%
<b>FINANCIAL PORTFOLIO EXCLUDING CASH</b>				
EUR	1 656	70 %	1 752	76 %
GBP	177	7 %	100	4 %
USD	102	4 %	158	7 %
Other	423	18 %	306	13 %
<b>TOTAL</b>	<b>2 358</b>	<b>100 %</b>	<b>2 317</b>	<b>100 %</b>

At December 31, 2019, investments in GBP increased to the detriment of investments in EUR and in USD.

Assets comprise the investment portfolio, technical reserves recorded as assets and the ceded portion of technical reserves.

Liabilities comprise technical reserves and borrowings.

The principle of matching assets and liabilities at the local level and the emphasis on the euro in the statement of financial position avoids the need to hedge residual exchange rate risk.



## Equity market risk

Equity market risk measures how sensitive asset values are to changes in equity prices. By extension, minority stakes in unlisted companies and investments in funds dominated by equities are deemed to be equities.

Euler Hermes SA (NV) has 17% of its financial portfolio invested in equities at the end of 2018. This percentage is in line with the strategic allocation of the investment portfolio, as well as its tactical allocation, as defined by the Investment Committee.

Investments in convertible bonds are classified under 'Bonds' in the table below.

in € thousands	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Bonds	1 438 396	57.0%	1 377 676	55.0%
Equities	426 267	17.0%	338 450	14.0%
Real-estate investments	236 809	9.0%	300 800	12.0%
Loans, deposits and other financial investments	256 435	10.0%	299 663	12.0%
<b>Total</b>	<b>2 357 906</b>	<b>93.0%</b>	<b>2 316 589</b>	<b>92.0%</b>
<b>Cash</b>	<b>178 335</b>	<b>7.0%</b>	<b>189 051</b>	<b>8.0%</b>
<b>Total Financial investments and cash</b>	<b>2 536 241</b>	<b>100.0%</b>	<b>2 505 640</b>	<b>100.0%</b>

## Liquidity risk

Liquidity risk is the risk that Euler Hermes SA (NV) may not have sufficient financial resources to cover its cash needs.

Liquidity risk is subject to specific monitoring by Euler Hermes SA (NV), in both its insurance activities and financial investments.

Each branch carries out projections of the cash flows derived from its insurance operations. These cash flow projections are reviewed at financial committee meetings.

Sources of liquidity available to Euler Hermes SA (NV) (excluding the divestment of its investment portfolio) mainly comprise:

- the excess liquidity of a company;
- the banking market;
- cash-pool from Allianz SE

Based on short- and medium-term cash flow projections and stress tests applied to these projections (liabilities as well as assets), Euler Hermes SA (NV) considers its liquidity risk to be low.

## Real estate risk

Real estate risk measures how sensitive the value of property assets is to changes in values in the real estate market. This risk covers buildings used in operations (disclosed in note 8 "Operating property and other property and equipment" in this document) as well as real estate leased to other parties (disclosed in note 5 "Investment and operating property" in this document).

The share of the financial portfolio invested in real estate or real estate products is consistent with both the strategic and tactical allocations of the investment portfolio, as defined by the Investment Committee and in force at December 31, 2019.

## Sensitivity tests

In addition to calculating the capital required to cover the risk taken, Euler Hermes SA (NV) regularly conducts sensitivity tests to check the adequacy of its protection and the possibility of scenarios involving higher risks than initially anticipated.

The results are representative of the risks concerned but, like any simulation, have their limits. The simulation is based on the situation at a given date, i.e. the year-end in the present case. As such, the results do not reflect events that may arise after the end of the financial year.

Risk on the fixed rate portfolio (excluding cash)	Year	Market value (in € millions)	Impact of a 100 bps increase in interest rates	Impact of a 100 bps decrease in interest rates
Fixed rate bonds	2019	1 438	(69)	69
	2018	1 378	(50)	50

(in € thousands)	December 31, 2019		December 31, 2018	
	100 BPS INCREASE	100 BPS DECREASE	100 BPS INCREASE	100 BPS DECREASE
<b>FIXED RATE BONDS</b>				
EUR	(44)	44	(35)	35
GBP	(7)	7	(3)	3
USD	(3)	3	(4)	4
Others	(16)	16	(8)	8
<b>TOTAL</b>	<b>(69)</b>	<b>69</b>	<b>(50)</b>	<b>50</b>

## Counterparty risk

Counterparty risk is the loss Euler Hermes SA (NV) would incur in the event of the insolvency of one of its business partners, namely the default of a reinsurer, a bank, a bond or equity counterparty, or the non-performance by a policyholder of its commitments.

Euler Hermes SA (NV) has implemented various mechanisms to anticipate and limit the consequences of one of its counterparties defaulting.

### Reinsurer default

Euler Hermes SA (NV) has entrusted all of its reinsurance business to Euler Hermes Reinsurance AG. This company has financial guarantees issued by the Euler Hermes group and therefore has the same rating by Standard & Poor's.

### Bank default

Mechanisms for detecting and limiting counterparty risk:

- selection of banks on the basis of their rating;
- limits on the available cash held in bank accounts;
- increase in the number of banks with which the group deals.

In the event of banking counterparty default, all the Company's cash in the accounts kept by the bank in question would be impaired.

### Bond or equity counterparty default

Mechanisms for detecting and limiting counterparty risk:

- Implementation of a strict policy limiting investment in a single private issuer to 5% of total assets.

## RATINGS OF BOND COUNTERPARTIES

Government or guaranteed fixed rate bonds (in € millions)	December 31, 2019		December 31, 2018	
	AMOUNT	%	AMOUNT	%
<b>RATING</b>				
AAA-Sovereign	21	1 %	58	4 %
AAA	325	23 %	295	21 %
AA	375	26 %	362	26 %
A	305	21 %	320	23 %
BBB or lower	413	29 %	343	25 %
<b>TOTAL FINANCIAL INVESTMENTS</b>	<b>1 438</b>	<b>100 %</b>	<b>1 378</b>	<b>100 %</b>

## Policyholder default

Mechanisms for detecting and limiting counterparty risk:

- procedures for the proactive management of funds held with policyholders, in particular to avoid a financial loss in the event of policyholder default.

(in € thousands)

	December 31, 2019			December 31, 2018
	Gross	Provisions	Net	Net
Receivables from policyholders and agents	262 051	(12 967)	249 084	224 684
Earned premiums not yet written	217 091	-	217 091	187 114
Receivables from guaranteed debtors	11 066	-	11 066	14 698
Receivables from reinsurance transactions	49 114	(61)	49 052	50 949
<b>Total credit insurance receivables</b>	<b>539 322</b>	<b>(13 028)</b>	<b>526 293</b>	<b>477 445</b>

Receivables from guaranteed debtors are mainly receivables recorded by Euler Hermes SA (NV) in respect of the retail credit activity (which is in run-off of business since 2011). €3.6 million have been recovered during 2019 in respect of the retail credit activity. To be reviewed.

## Breakdown by maturity

(in € thousands)

	December 31, 2019				
	< 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Total credit insurance receivables	489 003	37 049	240	-	526 293

Trade receivables are subject to strict monitoring procedures. Ninety eight percent (98 %) of trade receivables have a maturity less than three months. Reserves are recognized for the full amount of any outstanding receivable which is more than six months past due.

## Operational, legal, regulatory and tax risks

Euler Hermes SA (NV), jointly with its main shareholder, has implemented an analysis framework to identify, quantify and manage operational risk that could stem from an overall failure of the organization, or from Euler Hermes SA (NV)'s systems, due to human error or resulting from an external event. A pillar of the Risk Management function is to ensure that appropriate processes are implemented to manage these risks.

### Operational risk

Operational risk is managed in accordance with the Euler Hermes SA (NV)'s operational risk policy, and is based on the deployment and maintenance of an appropriate and consistent internal control organization, guaranteeing appropriate operational risk management for each Euler Hermes SA (NV) branch and subsidiary.

Euler Hermes SA (NV)'s operational risk management system is based on:

- crisis management and business continuity plans;
- internal management rules and operational procedures specifying the manner in which operations should be carried out;
- process of periodic disclosure for operating losses and regular analysis of scenarios that could result in operational losses, if they materialize.

The operational risk control system, set out for Euler Hermes SA (NV) entities, is structured on three levels of control, with responsibilities and control plans suited to each level:

- permanent self-monitoring at the operational level and continuous management control;
- second level of controls performed by functions independent of the purely operational functions, mainly Risk Management, Actuarial Function and continuous management control Compliance;
- periodic checks conducted in each entity by the internal audit function.

In addition, a program covering own insurance risks has been set up.

### Regulatory risk

Euler Hermes SA (NV) is subject to various regulations governing the insurance, banking and asset management businesses.

Euler Hermes SA (NV) has adopted the necessary standards and processes to comply with the regulations of the countries in which it operates. 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.

Each branch and subsidiary has appointed a correspondent to provide local regulatory monitoring, impacts assessment and the

determination of required actions to implement, in coordination with Euler Hermes SA (NV)'s Group function in charge of controlling the efficiency of the compliance programs.

### **Legal and arbitration proceedings**

In the ordinary course of its business, Euler Hermes SA (NV) is involved in legal proceedings (notably debt collection proceedings) and is subject to tax assessments and administrative audits. Systematically reserves are set up accordingly.

The unfavorable outcome of any pending or future litigation could have an adverse impact on Euler Hermes SA (NV)'s business, financial position, consolidated net income, reputation or market image. Euler Hermes SA (NV) carefully manages its relationships with external parties, and each entity has a local structure or the necessary legal resources to take the appropriate action in the event of disputes.

Euler Hermes SA (NV), considers that to its best knowledge, there is no government, legal or arbitration procedures which is pending or of which it is threatened, other than those concerning claims or potential claims relating to the current activities of the company, likely to have or having had in the last twelve months significant effects on the financial situation or the profitability of the Company and / or of Euler Hermes SA (NV).

### **Tax risks**

By virtue of its legal structure, Euler Hermes SA (NV) operates in many countries and under a range of tax regimes.

Tax risk can arise from an operational error in the calculation and declaration of taxes or arise from a difference in interpretation of the application of tax rules.

Euler Hermes SA (NV) has established various processes designed to reduce this tax risk. In particular,

- first- and second-level controls have been implemented in order to ensure the validity of tax calculations and timely reporting to the tax authorities;
- tax risk analyses are produced by the financial officers on a quarterly basis for the principal tax entities in order to identify the primary risks of interpretation differences.

### **Compliance risk**

A compliance risk arises from non-compliance with laws, regulations or administrative provisions that can lead to significant financial losses or harm the Group's reputation.

The Euler Hermes SA (NV)'s Compliance Officer works in collaboration with its correspondents in every region in order to evaluate the impact of regulatory changes and the Company's activities, and to monitor the effectiveness of the compliance system.

### **Reputational risk**

Euler Hermes SA (NV) has implemented necessary measures to protect its image and actively communicate with its shareholders, customers, employees and, more broadly, the financial community about its financial strength via:

- regular disclosure, both internally and externally;
- continuous monitoring of Euler Hermes SA (NV)'s image and reputation;
- a set of rules to determine whether operations may result in a reputational risk;
- a crisis plan in case of a significant event.

### **Labor and environmental risks**

On labor issues, the major challenge facing Euler Hermes SA (NV) is how to retain employees and how to attract the best talent in the future.

Environmental issues affect Euler Hermes SA (NV) to a rather limited extent, due to the generally non-polluting nature of its business.

### **Solvency capital requirement**

As previously indicated, Euler Hermes SA (NV) has implemented its own internal model covering the Group's risks within the framework of Solvency II.

The prudential data relating to the Solvency II ratio are disclosed in the Euler Hermes SA (NV) Annual Board Report in §8 Solvency II economic ratio.