Euler Hermes SA (NV)

December 31, 2019

EULER HERMES
Our knowledge serving your success

A company of Allianz

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Management Report

1.1 Business environment

What did we learn in 2019?

A record high uncertainty and two recessions. The trade conflict between the U.S. and China rapidly escalated. The U.S. average import tariff moved from 3.5% in 2018 to close to 8% in 2019. However, the uncertainty cost more in terms of GDP growth than the tariffs. While tariffs had an annual cost of -0.2pp to global GDP growth, we estimate the annual cost of uncertainty at -0.3pp of global GDP growth. Companies have faced a very rapid increase of inventories as a consequence of higher uncertainty and soft global demand. The trade conflict coupled with difficulties of the automotive sector pushed global trade in goods into a recession. Hence, global manufacturing production fell into recession in Q3 2019. Global investment also remained impaired by the high uncertainty and lower trade flows.

A broad-based recession has been avoided, thanks to the swift and sizeable monetary policy reactions. The number of central banks initiating a monetary policy easing in 2019 reached a record high since 2009. There was no hesitation to use unconventional tools of monetary policy to inject liquidity, both at the Fed and ECB levels. This along with limited fiscal support helped domestic-oriented sectors, notably residential construction and services. However, the protracted usage of unconventional monetary policy tools has entrenched the world in an environment of low-to-negative interest rates for long and raised questions about their efficiency.

Social tensions and political risks multiplied at a rapid pace. Increasing inequalities over the past years and high fiscal pressures on households resulted in outbreaks of social crisis in several countries. Unexpected protests escalated across regions, such as Hong Kong, several countries in Latam (Chile, Colombia), while the yellow vest protests continued in France in H1 2019. Geopolitical tensions also prevailed in the Middle East, particularly between Saudi Arabia and Iran, and between the U.S. and Iran.

Environmental shocks. The regulatory shock in the automotive sector almost pushed Germany into recession and had global repercussions. Major climate events (fires in the U.S., Brazil and Australia) occurred at a more frequent pace. Concomitantly, the new European Commission announced a Green Deal, including a Just Transition Mechanism worth EUR100bn to help regions most heavily dependent on fossil fuels. The implementation of new green and environmental, social and governance policies has started to bite companies, with further adjustments to be seen and new initiatives to support energy transition.

1.2 Selected financial information

(in € millions)	December 31, 2019	December 31, 2018
Consolidated turnover	2 201,1	2 075,5
Gross technical result	420,0	514,3
Net technical result	160,7	152,5
Net investment income [(1)]	41,6	46,9
Current operating income	**202,3**	**199,3**
Other non ordinary operating expenses and income	(0,3)	(3,8)
Operating income	202,0	195,6
CONSOLIDATED NET INCOME [(2)]	**142,3**	**127,7**
Net loss ratio	56,2%	56,0%
Net cost ratio	11,6%	12,0%
Net combined ratio	**67,8%**	**68,0%**

[(1)] Excluding financing expenses
[(2)] Group share

(in € millions)	December 31, 2019	December 31, 2018
Investment porfolio		
Balance sheet book value of investments [(4)]	2 367,8	2 274,3
Market value of investments [(4)]	2 536,2	2 505,6
Technical reserves		
Gross non-life technical reserves	2 080,0	1 941,9
Net non-life technical reserves	886,7	863,2
Total assets	**4 976,9**	**4 485,3**
Shareholders' equity [(5)]	**1 523,6**	**1 478,5**

[(4)] Including investment property and cash
[(5)] Including non controlling interests

1.3 Key events

1.3.1 Key events of 2019

The information for this section is included in Note 1 “Significant events” in the notes to the consolidated financial statements.

1.3.2 Key events post-December 31, 2019

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.

1.4 Consolidated result of the Group

1.4.1 Consolidated turnover

Consolidated turnover consists of income from premiums, comprising earned premiums generated by direct insurance and assumed business, and service revenues, mostly premium-related.

Premiums

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

Premiums are based mainly on policyholders' sales or their outstanding customer risk, which also depends on their sales.

Service revenues

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

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

1.4.1.1 Consolidated turnover by region

In € millions	December 31, 2019	December 31, 2018	Variation in %	2019 at constant FX	Variation in %
Germany, Austria, Switzerland	611,8	588,4	4,0%	610,1	3,7%
France	459,7	441,0	4,2%	459,7	4,2%
Northern Europe	582,3	550,8	5,7%	581,8	5,6%
Mediterranean Countries	364,6	343,9	6,0%	365,9	6,4%
Asia-Pacific	181,3	154,2	17,6%	173,2	12,3%
Brazil	23,7	19,0	24,7%	24,3	27,9%
Euler Hermes Services SA	114,9	110,1	4,4%	114,9	4,4%
Inter-region eliminations	(137,2)	(131,9)	4,0%	(232,8)	76,5%
Total turnover	**2 201,1**	**2 075,5**	**6,1%**	**2 097,1**	**1,0%**

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

At €2,201.1 million at the end of December, turnover increased by 6.1% compared to the end of 2018. At constant exchange rates, topline increased by 5,7% compared to last year with earned premiums increasing by 6.2%, while service revenues slightly increased (+2.0%).

In terms of geographies, all regions are driving premium growth. Growth is strong in Asia-Pacific, Mediterranean countries, Middle-East and Africa, and Brazil due to good commercial performance on credit insurance activity as well as premium growth in excess of loss and bonding business line. Germany rises primarily due to Bonding and Fidelity activity.

1.4.1.2 Breakdown of turnover between premium income and service activities

In € millions	December 31, 2019	December 31, 2018	Variation in amount	Variation in %
Earned premiums	1 928,0	1 808,0	120,1	6,6%
Service revenues	273,1	267,5	5,6	2,1%
Total turnover	**2 201,1**	**2 075,5**	**125,7**	**6,1%**

Earned premiums amounted to €1,928 million in 2019 increasing by 6.6% compared to last year and by +6.2% at constant FX rate.

At constant FX, Service revenues increased by 2.0% thanks to good performances in Brazil and Mediterranean region on collection fees (+3.6%) and on other fees (+6.6%).

1.4.1.3 Earned premiums

In € millions	December 31, 2019	December 31, 2018	Variation
Gross earned premiums	1 928,0	1 808,0	6,6%
Ceded premiums	(1 428,6)	(1 330,7)	7,4%
Net earned premiums	**499,4**	**477,2**	**4,6%**
Cession rate	74,1%	73,6%	+0,5 pt

Gross earned premiums increased by 6.6% compared to last year, net earned premiums also increased by +4.6%.

1.4.2 Cost of claims

The claims ratio is defined as the cost of claims relative to earned premiums after deduction of rebates granted to policyholders.

In € millions	December 31, 2019	December 31, 2018	Variation
Gross claims costs	(1 004,1)	(794,1)	26,4%
Ceded claims costs	723,5	526,9	37,3%
Net claim costs	**(280,6)**	**(267,2)**	**5,0%**
Gross Claims ratio	52,1%	43,9%	+8,2 pts
Net Claims ratio	56,2%	56,0%	+0,2 pts
Cession ratio	72,1%	66,4%	+5,7 pt

Gross claims costs for all attachment years stands at €1,004.1 million, an increase of 26.4% compared to last year. This evolution is mainly due to higher cost of claims for the current attachment year.

1.4.2.1 Cost of claims on current attachment year

In € millions	December 31, 2019	December 31, 2018	Variation
Gross claims costs current attachment year	(1 323,8)	(1 124,7)	17,7%
Ceded claims costs current attachment year	939,2	755,0	24,4%
Net claim costs current attachment year	**(384,7)**	**(369,7)**	**4,0%**
Gross loss ratio current attachment year	68,7%	62,2%	+6,5 pt
Net loss ratio current attachment year	77,0%	77,5%	-0,4 pt
Cession ratio current attachment year	70,9%	67,1%	+3,8 pt

Gross claims costs for the current year were €1,323.8 million, up 17.7 % compared to last year due to higher claims activity.

Euler Hermes was impacted by several large cases mainly in the bonding line of business and by a high level of small to mid-size TCI claims in the first part of the year, mainly in France, Italy and in the UK. As a consequence, the gross loss ratio current attachment year stood at 68.7% to be compared to 62.2% in 2018.

The net loss ratio for the current year improved by 0.4 pt. during the year, while the gross claims cost deteriorated. This is mainly explained by the positive impact of the cession mix on Line of Business.

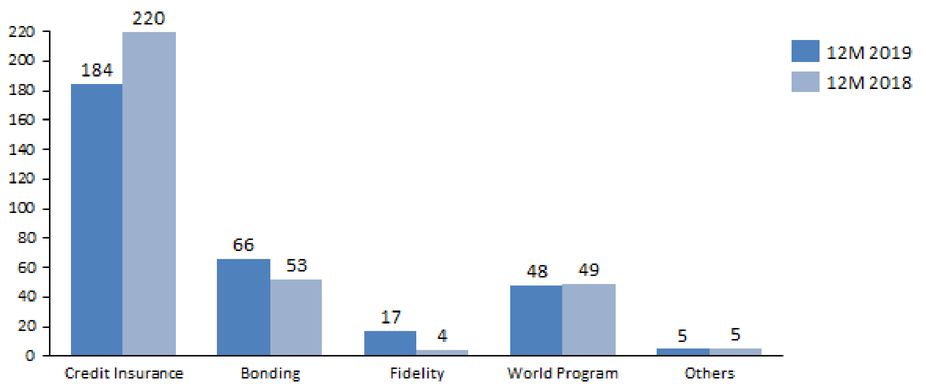
1.4.2.2 Net run-off

In € millions	December 31, 2019	December 31, 2018	Variation
Gross claims costs previous attachment years	319,8	330,6	-3,3%
Ceded claims costs previous attachment years	(215,7)	(228,0)	-5,4%
Net claims costs previous attachment years	**104,1**	**102,5**	**1,5%**
Gross loss ratio previous attachment year	16,6%	18,3%	-1,7 pts
Net loss ratio previous attachment year	20,8%	21,5%	-0,6 pts
Cession ratio previous attachment year	67,4%	69,0%	-1,5 pts

Gross claims costs previous attachment years were positive and amounted to €319.8 million, representing 16.6% gross loss ratio for the previous attachment years, down 1.7 pt. compared to last year.

The net loss ratio, which stands at 20.8%, also deteriorated by -0.6 pt. compared to last year but to a lesser extent than the gross loss ratio (-1.7 pt.). This is due to a lower cession rate previous attachment year in 2019 (67,4%) than in 2018 (69%).

- Gross run-off *(**IN € MILLIONS**)*



1.4.3 Technical and operating expenses

The expense ratio is defined as the sum of the contract acquisition expenses, administration fees, other underwriting income and expenses, minus premium-related revenues, relative to earned premiums after deduction of rebates granted to policyholders.

The gross technical operating expenses that are included in the technical expense ratio (see definition above) include the following costs:

(in € millions)	December 31, 2019	2019 at constant Fx	Variation in amount	Variation in %	December 31, 2018 published
HR Expenses	428,6	427,6	19,2	4,5%	408,4
Brokerage	236,7	235,1	15,7	6,7%	219,4
IT & Communications	90,5	90,3	8,3	9,2%	82,0
Facilities & Occupancy	44,2	44,1	1,4	3,2%	42,7
Audit. Tax & related fees performed	6,5	6,4	(0,8)	-11,8%	7,2
Legal & Consulting fees	20,1	20,1	(0,9)	-4,5%	21,0
Agency. Marketing. Advertising	12,7	12,7	(0,9)	-7,4%	13,6
Representation & Other Travel Expenses	13,4	13,4	(0,5)	-3,9%	13,9
External Information & Collection Expenses	78,3	78,1	1,9	2,4%	76,2
Other Operating Expenses	(6,6)	(7,0)	4,3	-61,1%	(11,3)
Gross technical expenses	**924,3**	**920,7**	**47,6**	**5,2%**	**873,1**
Claims Handling Operating Expenses	(100,0)	(100,0)	(7,2)	7,2%	(92,8)
Investment Management Expenses	(5,5)	(5,5)	(0,6)	11,3%	(4,9)
Gross Operating Expenses	**818,7**	**815,2**	**39,8**	**4,9%**	**775**
Service Revenues	(273,1)	(273,0)	(5,5)	2,0%	(267,5)
Expenses net of service revenues	**545,6**	**542,3**	**(3,0)**	**-0,6%**	**507,9**
Reinsurance Commission	(487,8)	(486,0)	(35,4)	7,3%	(450,5)
Net Expenses	**57,9**	**56,3**	**(38,5)**	**-68,3%**	**57,3**
Gross Expense Ratio	**28,3%**	**28,2%**	**-**	**0,1%**	**28,1%**
Net Expense Ratio	**11,6%**	**11,7%**	**-**	**-0,3%**	**12,0%**

Gross technical expenses increased by 5.2 % compared to last year pro forma and at constant FX rate. The increase in costs is higher than the topline growth (+1.0 % at constant FX rate); driven by increases in the HR expenses, in the Information Technology (IT) charges and due to a tax risk accrual reversed in 2018.

HR expenses were up +4.5% at constant exchange rates, impacted by general increase of wages, higher bonuses paid, the entry of the World Agency in the scope and higher profit sharing level. In addition, 2018 was positively impacted by LTI accrual release from 2017. Brokerage costs increased slower than premiums growth due to a lower level of brokerage rate. IT costs increased due to an increase in intragroup IT reinvoicing by EH Group to the insurance companies.

Net of service revenues and after reinsurance, net technical expenses stood at €57.9 million, and the net technical ratio was 11.6% compared to 12% last year.

1.4.4 Net technical result

(in € millions)	December 31, 2019	December 31, 2018	Variation
Net Earned Premium	499,4	477,2	22,2
Net Claims Costs	(280,6)	(267,2)	(13,4)
Net Technical Costs	(57,9)	(57,3)	(0,5)
Net technical result [(1)]	**161,0**	**152,7**	**8,2**
Net combined Ratio	67,8%	68,0%	-0,2 pts

(1) Net Technical Result = Current income before net investment income.

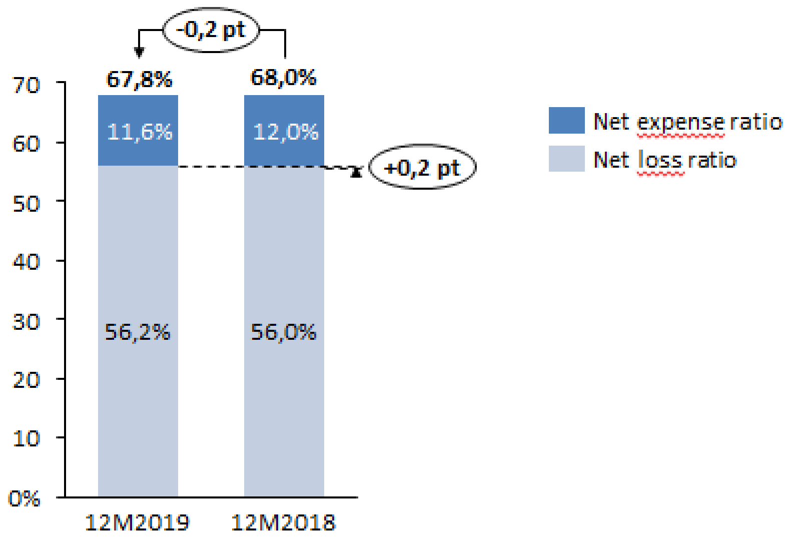
At €161.0 million, the net technical result increased by €8.2 million driven by a higher net earned premiums partially offset by higher net claims and technical costs.

1.4.5 Net combined ratio

Net combined ratio after reinsurance amounted to 67.8% in 2019, is down by 0.2 pt., due to the net cost ratio decreasing by 0.4 pt., despite a slightly higher net claims ratio up by 0.2 pt., affected by some large claims, but compensated by positive run-offs on past years reserves.

The net cost ratio had decreased by 0.4 pt. to 11.6% by the end of December 2019 compared to 12.0 % last year, as a result of higher reinsurance commissions combined with a higher topline. The net costs ratio trends are analyzed in the Note 1.4.3 “Technical and operating expenses”.

- Net Combined ratio reinsurance ***(IN % PREMIUMS, NET OF REINSURANCE)***



1.4.6 Net investment income

In € millions	December 31, 2019	December 31, 2018	Variation
Revenues from investment property	10,1	10,2	-0,6%
Revenues from equity and debt securities	34,0	30,3	12,2%
Other financial income	7,1	7,5	-4,8%
Investment income	**51,3**	**48,0**	**6,8%**
Investment expenses	(9,1)	(8,4)	8,0%
Net change in foreign currency	(1,9)	(3,3)	-42,4%
Net gains and losses on sales of investments less impairment and amortisation	1,4	10,6	-87,2%
Net investment income (excluding financing expense)	**41,7**	**46,9**	**-11,2%**

Net investment income (before financing expenses) amounted to €41.7 million for the year ended December 31, 2019, compared to €46.9 million in 2018, mainly due to less gains realized on sales of investments and some impairments.

In 2019, investment income stood at €51.3 million, rising over the period, due to higher incomes on equities and bonds portfolios.

Investment expenses were €-9.1 million, a little higher than last year.

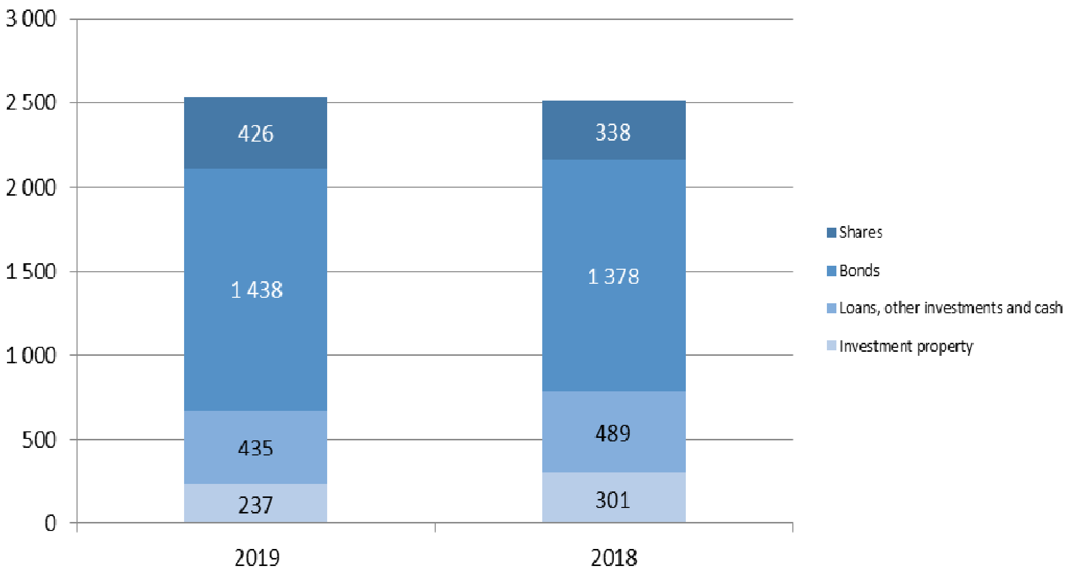
The net change in foreign currency in 2019 is mainly explained by the variations of the US dollar and Asian currencies against the euro. In 2018, it was explained mainly by the appreciation of the US dollar against the euro and the volatility of the Rouble.

As at December 2019, net realized gains and losses were €1.4 million compared to €10.6 million at the end of 2018, partially due to two impairments booked on EH Rating loans and Perfectis loans in the second quarter of 2019 for €2.8 million.

	December 31, 2019					
(in € million)	Historical value	Revaluation reserve	Net carrying amount	Fair value	Listed	Non listed
Bonds	-	-	-	-	-	-
Held-to-maturity assets	**-**	**-**	**-**	**-**	**-**	**-**
Equities	370,2	56,1	426,3	426,3	1 715,1	149,5
Bonds	1 402,9	35,5	1 438,4	1 438,4		
Available-for-sale assets	**1 773,1**	**91,6**	**1 864,7**	**1 864,7**	**1 715,1**	**149,5**
Loans, deposits and other financial investments	**256,4**	**-**	**256,4**	**256,4**	**-**	**-**
Total Financial investments (excluding investments in consolidated enterprise)	**2 029,5**	**91,6**	**2 121,1**	**2 121,1**	**1 715,1**	**149,5**

	December 31, 2018					
(in € million)	Historical value	Revaluation reserve	Net carrying amount	Fair value	Listed	Non listed
Bonds	-	-	-	-	-	-
Held-to-maturity assets	**-**	**-**	**-**	**-**	**-**	**-**
Equities	345,8	(7,3)	338,5	338,4	1 633,2	82,9
Bonds	1 366,4	11,3	1 377,7	1 377,7		
Available-for-sale assets	**1 712,2**	**4,0**	**1 716,2**	**1 716,1**	**1 633,2**	**82,9**
Loans, deposits and other financial investments	**298,1**	**-**	**298,1**	**299,7**	**-**	**-**
Total Financial investments (excluding investments in consolidated enterprise)	**2 010,2**	**4,0**	**2 014,3**	**2 015,8**	**1 633,2**	**82,9**

- Investment portfolio ***(IN € MILLIONS – MARKET VALUE AS AT 12/31/2019)***



1.4.7 Ordinary operating income

(in € millions)	December 31, 2019	December 31, 2018	Variation
Technical result	160,7	152,5	5,4%
Net investment income (excluding financing expense)	41,6	46,9	-11,2%
Ordinary operating income	**202,3**	**199,3**	**1,5%**

The ordinary operating income of €202.3 million increased by 1.5% compared to end of 2018, driven by higher net technical result but mitigated by a lower net investment income.

1.4.8 Consolidated net income

In € millions	December 31, 2019	December 31, 2018	Variation
Ordinary operating income	**202,3**	**199,3**	**3,0**
Other non-ordinary income and expense	(0,3)	(3,8)	3,5
Financing expenses	(2,9)	(4,1)	1,2
Share of Income from companies accounted by the equity method	11,9	10,9	1,0
Corporation tax	(59,5)	(64,4)	4,9
Non controlling interests	(9,2)	(10,3)	1,0
Consolidated net income, Group share	**142,3**	**127,7**	**14,6**
Tax rate	28,2%	31,8%	3,6 pt

Other non-ordinary income and expenses comprised €0.3 million in restructuring costs at the end of December 2019 compared to €3.8 million at the end of 2018. After non-ordinary items, financing expenses, income from companies valued at equity and corporate tax, the Group’s share of consolidated net income stood at €142.3 million, compared to €127.7 million in 2018. The effective tax rate stands at 28.2%, lower than last year (31.8%). The main variances are detailed in Note 26 “Corporation tax” of EH financial statements in the notes to the consolidated financial statements.

1.5 Performance of the Group’s main geographic regions

The Group's organization is structured around six geographical regions, each with its own growth and profitability targets: Germany/Austria/Switzerland, France, Northern Europe, Mediterranean Countries, Middle East and Africa, Asia-Pacific and Brazil.

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

1.5.1 Germany, Austria and Switzerland

This region includes the direct insurance and assumed reassurance business carried out by the entities operating in Germany, Austria and Switzerland.

In € millions	**December 31, 2019**	**December 31, 2018**	**Variation**
Earned premiums	593,3	569,8	4,1%
Service revenues	18,5	18,5	0,0%
Turnover	**611,8**	**588,3**	**4,0%**
Investment income	11,1	9,4	18,1%
Total ordinary income	**622,9**	**597,7**	**4,2%**
Insurance service expenses	(257,1)	(211,2)	21,7%
Net outwards reinsurance income or expenses	(94,1)	(118,9)	-20,9%
Other income and expenses	(199,5)	(184,2)	8,3%
Total other income and expenses	**(550,7)**	**(514,3)**	**7,1%**
Current operating income	**72,2**	**83,4**	**-13,4%**
Net combined ratio	54,9%	45,0%	+10,0 pts

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

Premiums are increasing by +4.1% at constant scope compared with last year (at constant foreign exchange, premiums are increasing by 3.9%) with benefits from TCI, Surety and Guarantee and Fidelity business. Service revenues remain constant compared to last year at constant scope. As a consequence, turnover is higher at +4.0% (+3.7% at constant foreign exchanges).

Investment income stands at 11.1 million, up by €1.7 million compared with last year due to a higher income on the equity portfolio.

Insurance service expenses are up by 21.7% between 2018 and 2019 and reached €-257.1 million at the end of 2019, as the Region has been impacted by several large cases this year, mainly on Surety and Guarantee line of business.

Net outward reinsurance expenses amounted to €-94.1 million, compared to €-118.9 million last year. This is explained by the 2019 Current Attachment Year large cases, as Surety and Guarantee claims are ceded at a higher rate than Credit Insurance.

Other expenses increased by +7.1% compared to last year. This is mainly due to other administration expenses that were significantly and exceptionnally lower in 2018 due to a release of provision related to interests for late payments accrued in 2017 for €9.8 million .

The net combined ratio went from 45.0% in 2018 to 54.9% in 2019, mainly due to the higher claims costs. As a consequence, the current operating income stood at €72.2 million at the end of the year, compared to €83.4 million last year.

1.5.2 France

In € millions	December 31, 2019	December 31, 2018	Variation
Earned premiums	371,5	353,3	5,2%
Service revenues	88,2	87,7	0,6%
Turnover	**459,7**	**441,0**	**4,2%**
Investment income	9,8	14,2	-31,0%
Total ordinary income	**469,5**	**455,2**	**3,1%**
Insurance service expenses	(240,0)	(159,3)	50,7%
Net outwards reinsurance income or expenses	9,7	(62,6)	-115,5%
Other income and expenses	(165,1)	(161,9)	2,0%
Total other income and expenses	**(395,4)**	**(383,8)**	**3,0%**
Current operating income	**74,1**	**71,4**	**3,8%**
Net combined ratio	46,1%	51,1%	-4,9 pts

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

France posted a +4.2% growth in turnover compared to last year and with the addition of the World Agency in the scope. This increase was driven by credit insurance, with major deals signed end of 2018 early 2019, and a significant growth of Surety and Guarantee business. Premiums increased by 5.2% and service revenues only rose by +0.6%,

Investment income stood at €9.8 million, at a lower level than last year due to lower dividends on investments and impairments booked on Perfectis.

Insurance service expenses reached €-240.0 million, higher than last year by 50.7%, driven by credit insurance, with major deals signed end of 2018 early 2019, and a significant growth of Surety and Guarantee business.

Net outwards reinsurance expenses amounted by €9.7 million, significantly above last year level due to the large cases evoked above, leading to higher claims cessions rate (Surety and Guarantee ceded at a higher rate than TCI).

Other expenses increased by 2.0% compared to last year. The increase is mainly explained by higher brokerage costs linked to the higher topline, and by an exceptional income in 2018 related to a gain on asset disposal (to the extent that Galileo (new management tool of credit insurance policies) will not be finally deployed outside of Germany, the asset was transferred to Germany). Those increases were partially compensated by lower collection fees.

The net combined ratio stood at 46.1%, down by 4.9 points compared to last year. As a result, the current operating income amounted €74.1 million, rising by €2.7 million compared with 2018.

1.5.3 Northern Europe

This region includes the direct insurance and assumed reinsurance business in Northern European countries (Belgium, Netherlands, United Kingdom, Ireland, Finland, Sweden, Denmark and Norway) and in Eastern Europe (Hungary, Poland, Czech Republic, Romania, Slovakia, Bulgaria and Russia).

In € millions	December 31, 2019	December 31, 2018	Variation
Earned premiums	505,1	474,0	6,6%
Service revenues	77,2	76,8	0,5%
Turnover	**582,3**	**550,8**	**5,7%**
Investment income	7,0	7,0	0,0%
Total ordinary income	**589,3**	**557,8**	**5,6%**
Insurance service expenses	(248,3)	(207,8)	19,5%
Net outwards reinsurance income or expenses	(72,1)	(101,5)	-29,0%
Other income and expenses	(240,1)	(224,4)	7,0%
Total other income and expenses	**(560,5)**	**(533,7)**	**5,0%**
Current operating income	**28,8**	**24,1**	**19,5%**
Net combined ratio	82,7%	85,9%	-3,3 pts

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

At €582.3 million, turnover was up by +5.7% compared to last year restated at constant scope, driven by an improved commercial performance as well as an increase in policyholders' turnover in credit insurance business, and an improved commercial performance in Surety and Guarantee business. At constant foreign exchange, turnover is up +5.6% against last year.

Investment income is stable compared to last year at €7.0 million, the impairment booked on EH Rating loan being compensated by a gain on foreign exchange rates.

Insurance service expenses reached €-248.3 million, up 19.5% compared to last year, mainly explained by several large cases, in particular in Surety and Guarantee. This increase was partly offset by an increase of run-offs.

Net outwards reinsurance expenses amounted €-72.1 million in 2019 compared to €-101.5 million in 2018, consequence here again of the large losses recorded in 2019, leading to higher claims cessions rate.

Other income and expenses were up +5.0% compared to last year in line with premiums evolution. This increase is mainly explained by higher brokerage costs, higher World Agency acquisition costs and higher administrative costs.

The net combined ratio improves against last year at 82.7%, consequence of a higher topline and cession rate more favorable. The current operating income stood at €28.8 million in 2019, up €4.7 million compared to last year.

1.5.4 Mediterranean countries, Middle-East and Africa

This region includes business in Italy, Greece, Morocco, Tunisia, Turkey, the Gulf States and South Africa.

In € millions	**December 31, 2019**	**December 31, 2018**	**Variation**
Earned premiums	292,4	275,2	6,3%
Service revenues	72,2	68,6	5,2%
Turnover	**364,6**	**343,8**	**6,1%**
Investment income	3,6	3,4	5,9%
Total ordinary income	**368,2**	**347,2**	**6,0%**
Insurance service expenses	(192,7)	(142,6)	35,1%
Net outwards reinsurance income or expenses	(15,9)	(49,1)	-67,6%
Other income and expenses	(136,7)	(130,3)	4,9%
Total other income and expenses	**(345,3)**	**(322,0)**	**7,2%**
Current operating income	**22,9**	**25,2**	**-9,1%**
Net combined ratio	75,7%	70,4%	+5,2 pts

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

At €364.6 million, turnover is up 6.1% compared to 2018. At constant foreign exchange, the increase stands at 6.4%. This increase was mainly driven by higher opening commercial portfolio and better Organic growth in credit insurance business. Surety and Guarantee business also benefitted from a growth in premiums. Finally, service revenues increases by +5.2% during the year, driven by higher monitoring fees in Italy and Turkey.

Investment income stands at €3.6 million, which is stable compared to 2018.

Insurance service expenses reached €-192.7 million, up by +35.1% compared to 2018, due to one large claim in Surety and Guarantee business in 2019, while a significant release was recorded in 2018.

The reinsurance result was €-15.9 million compared to €-49.1 million last year, the region benefited from higher claims cessions rate (due to Surety and Gurantee cession rate level).

Other expenses increased by 4.9%, mainly due to an exceptional income in 2018 related to a gain on asset disposal (to the extent that Galileo (new management tool of credit insurance policies) will not be finally deployed outside of Germany, the asset was transferred to Germany), and also due to an increase in the brokerage fees related to the increase on the topline.

And the net combined ratio stood at 75.7%, up by 5.2 pts compared to last year. As a consequence, the result of the current operating income amounted €22.9 million, compared to €25.2 million in 2018.

1.5.5 Asia-Pacific

This region includes all the direct insurance and assumed reinsurance activities carried out by branches based in Asia (India, Japan, South Korea, China, Hong Kong, Taiwan and Singapore) and Oceania (Australia and New-Zealand).

In € millions	December 31, 2019	December 31, 2018	Variation
Earned premiums	146,3	120,1	21,8%
Service revenues	35,0	34,1	2,6%
Turnover	**181,3**	**154,2**	**17,6%**
Investment income	0,4	(1,1)	-136,4%
Total ordinary income	**181,7**	**153,1**	**18,7%**
Insurance service expenses	(57,0)	(62,8)	-9,2%
Net outwards reinsurance income or expenses	(39,0)	(19,0)	105,3%
Other income and expenses	(94,8)	(85,8)	10,5%
Total other income and expenses	**(190,8)**	**(167,6)**	**13,8%**
Current operating income	**(9,1)**	**(14,5)**	**-37,2%**
Net combined ratio	126,4%	146,5%	-20,1 pts

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

At €181.4 million, turnover was up +17.6% compared to last year. This increase was mainly driven by an improved retention and commercial performance on credit insurance business. Surety and Guarantee business also benefitted from a growth. At constant foreign exchange, turnover is up to +12.3% compared to last year.

Investment income amounts to €0.4 million compared to €-1.1 million last year, thanks to higher incomes on bonds portfolio and favorable foreign exchange currency fluctuations.

The insurance service expenses amounted €-57.0 million, significantly down by -8.6% compared to last year due to a release of IBNR on a Run Off large case.

The net outward reinsurance result amounts to €-39.0 million, lower than last year (-105.3%). This is explained by the lower claims cession rate.

Other income and expenses are increasing compared to last year at €-94.8 million, however, progressing at a slower pace than the topline growth. This increase is explained mainly by higher information fees and higher World Agency acquisition costs.

Due to the high gross cost structure of the Asian operations, and despite lower claims, operating income was a loss of €-9.1 million, an improvement of €5.4 million compared to 2018.

1.5.6 Brazil

This region includes all direct insurance activities in Brazil.

In € millions	December 31, 2019	December 31, 2018	Variation
Earned premiums	19,6	15,6	25,6%
Service revenues	4,1	3,4	20,6%
Turnover	**23,7**	**19,0**	**24,7%**
Investment income	0,5	0,5	0,0%
Total ordinary income	**24,2**	**19,5**	**24,1%**
Insurance service expenses	(9,2)	(7,0)	31,4%
Net outwards reinsurance income or expenses	(5,9)	(5,6)	5,4%
Other income and expenses	(9,3)	(8,6)	8,1%
Total other income and expenses	**(24,4)**	**(21,2)**	**15,1%**
Current operating income	**(0,2)**	**(1,7)**	**-88,2%**
Net combined ratio	120,6%	215,8%	-95,2 pts

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

Turnover increased by +24.7 % compared to 2018, to reach €23.7 million as at December 31, 2019. At constant exchange rates, the turnover rises by +28.4% compared to last year thanks to higher revenues in the credit insurance business line.

Investment income amounted to €0.5 million, remaining stable compared to 2018.

Insurance service expenses increased by +31.4% compared to last year linked to premiums growth.

The net outward reinsurance result was negative at €-5.9 million compared to a negative result of €-5.6 million in 2018.

As a consequence, the ordinary operating is a loss of €-0.2 million compared to €-1.7 million in 2018.

1.6 Cash and cash equivalents

As at the end of December 2019, cash and cash equivalents were mainly held in euros, as the Group's main area of business is the euro zone.

Additional information for this section is included in the consolidated statement of cash flows and in Note 12 "Cash and cash equivalents" in the notes to the consolidated financial statements.

1.7 Financing

The Group's external debt at the end of December 2019 included liabilities from cashpooling wth other Euler Hermes entities, some bank overdrafts and a credit line with AAREAL Bank.

Additional information for this section is included in Note 17 "Borrowings" in the notes to the consolidated financial statements.

1.8 Solvency II economic ratio

1.8.1 Euler Hermes implemented its own internal model

Euler Hermes, which is part of the Allianz Group, has been authorized by BaFin (the lead regulator for the Allianz Group), subsequent to a review and proposal by the local supervisors, NBB (National Bank of Belgium), to use an internal model instead of a standard model for Euler Hermes SA to estimate the solvency capital requirement.

Euler Hermes opted for the use of an internal model for the following reasons:

- Despite an adequate representation of the risk (ordinary risk and non-ordinary risk, recession/ large loss events), the calibration of the actuarial components in the standard formula does not reflect Euler Hermes' risk profile;
- The standard formula does not allow for geographical diversification between regions, whereas Euler Hermes considers that there is no correlation between the various regions taken into account;
- The standard formula does not allow for the management actions embedded in the Trade Credit Insurance policy through which Euler Hermes manages its risk to be taken into account, and;
- The standard formula is based on premiums, which is not the correct risk parameter for Euler Hermes' business.

Some other insurance entities of the Group, namely Euler Hermes Poland and joint ventures within the scope of Solvency II, could not be included in the internal model because of their size and/or the significance of their past. For these entities, Euler Hermes either uses the standard model or a deduction approach removing both capital and required capital from the solvency ratio of Euler Hermes as a group.

In addition, Euler Hermes includes in the calculation scope of its solvency ratio a banking regulated entity (Euler Hermes Crédit France) and an asset management entity (Euler Hermes Asset Management).

Finally, Euler Hermes has established a strong enterprise risk management framework and efficient reporting processes in line with the Solvency II directive.

1.8.2 Solvency II economic ratio as at December 31, 2019

The Solvency II economic ratio is equal to eligible Own Funds divided by the Solvency Capital Requirements and stood at 224% after the payment of an ordinary dividend of € 80 million for 2019, which must be approved by the shareholders' meeting.

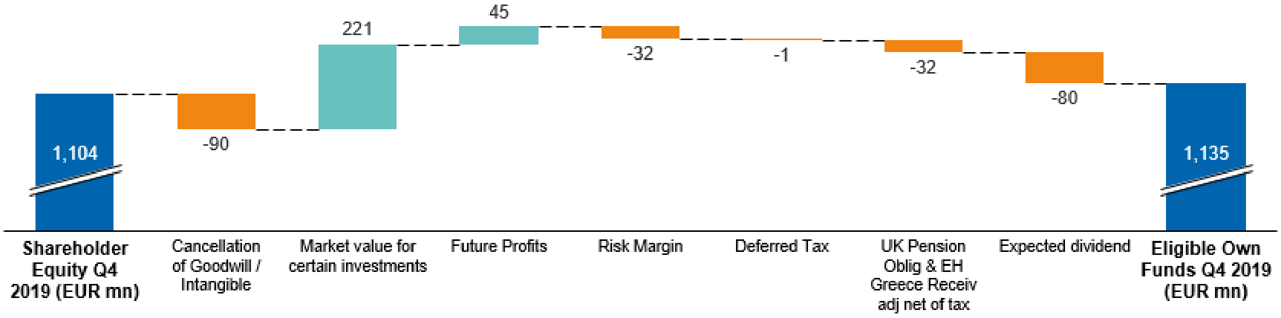
Following the crisis linked to the Covid-19 pandemic, the payment of the dividend of 80 million euros will not take place in 2020, consequently the corrected eligible equity amounts finally to 1,215 million euros and the Solvency II economic ratio at 240%.

(in € millions)	December 31, 2019
Eligible Own Funds	1,135
Solvency Capital Requirement	506
Solvency II Economic Ratio	**224 %**

a) Eligible Own Funds:

Eligible Own Funds amounted to €1,135 million as at December 31, 2019. They were mainly tier one Own Funds (98.9%). Euler Hermes has no leverage and does not use any supplementary Own Funds.

The discrepancy between Euler Hermes SA IFRS equity and Solvency II Own Funds was as follows:



The cancellation of intangible assets for €-90 million is comprising goodwill for €-6 million and intangible assets for €-84 million.

The Market Value for certain investments for €221 million is mainly coming from the contribution of the OPCI, Patrimonia and EH Crédit France.

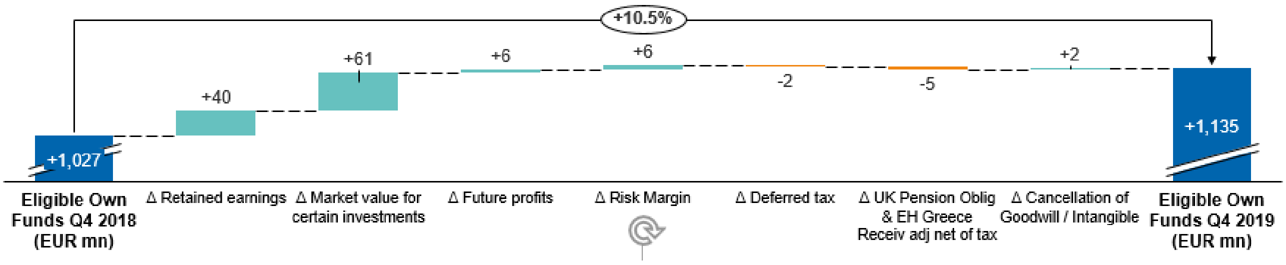
b) Eligible Own Funds trends:

The Eligible Own Funds have increased by €107.6 million (+10.5%) over the year 2019 from €1,027.4 million in 4Q 2018 to €1,135 million as at December 31, 2019.

The positive changes are mainly due to:

- the Market Value change for certain investments for €+61 million mainly driven mainly by Patrimonia (€41 million), EH Crédit (€8.5 million), EH Recouvrement (€5 million), EH Italy (€3 million) and EH Poland (€4 million)
- the Retained earnings for €+40 million driven by the profit and other comprehensive income over the 12 months 2019 for €+120 million less foreseeable dividends for €-80 million.

The negative changes are mainly due to the negative change of the UK Pension liability net of tax for €-3 million, the EH Greece Loan depreciation for €-2 million and the Deferred tax impacts related to the positive changes for €-2 million.

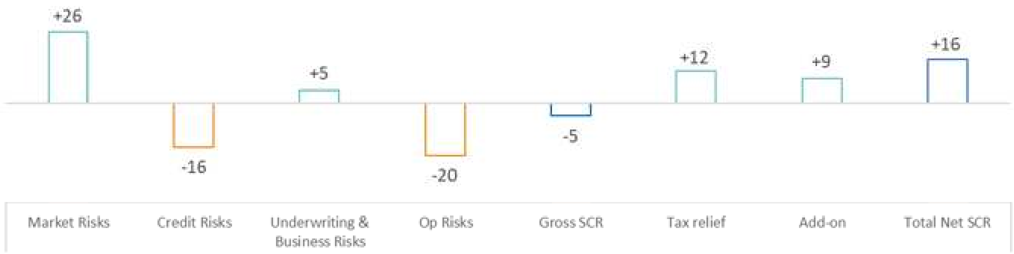


c) Solvency capital requirement:

The Solvency Capital Requirement has increased by €+16 million (+3.3%) from €490 million in Q4 2018 to €506 million as at December 31, 2019.

Contributions to Total SCR (in EUR mn)

Evolutions since Q4 2018 (in EUR mn)



The main positive change is related to the reduction in the impact of taxes (+€12 million), due to the reduction in risks allocated to the German and French branches (in the position of net deferred tax liabilities).

The increase in the capital add-on of €9 million is explained on the one hand by the increase in the capital required for solvency relating to the British pension fund (€6.5 million) resulting from the deficit of the funds and the lower diversification of the underlying market risks and on the other hand by the increase in capital add-on linked to the TCI&S insurance credit risk model (€ 2.5 million) mainly from the lower impact of the corresponding taxes.

We can also note a decrease in credit risks for €-16 million, which is explained by the fall in TCI exposure, changes in model parameters, and the update of Stop Loss parameters, as well a reduction in operational risks for €-20 million, linked to their annual recalibration. These negative changes are partly offset by the increase in market risks, mainly linked to equity and real estate risks, and explained by the increase in value of the securities in the portfolio and by the new investments made.

1.9 Outlook

What should we expect in 2020?

Since the start of 2020, economists from the Euler Hermes group were drawing attention to the risk of an economic slowdown, induced by trade tensions between the United States and China. The Covid 19 crisis, the lockdown measures put in place by almost all the governments of developed countries, the brutal slowdown of economic activity induced by it, but also the collapse of oil prices, have brought about an unprecedented situation and all are combining to change the established order. At the time of writing this report, today April 21, it is clear that the lockdown will last longer than originally expected, that the exit of this lockdown will be gradual, and that it will take months to recover from the negative economic impacts of this shock. In many European countries, experts expect economic activity to fall in the range of -4% to -7% in 2020, followed by a recovery of a similar magnitude in 2021.

Such a contraction of the economy will present States and central banks with a huge challenge. The aim is to help companies in difficulty, to support activity, to restore confidence in the financial markets by injecting liquidity and lowering rates. Many central banks have already embarked on the path of lowering rates, while governments are stepping up initiatives to support businesses and individuals to limit the effects of the crisis. The current environment sounds, therefore, like a return of the State as a major economic player, and this is probably the first medium-term consequence of this crisis. No matter if these efforts are undertaken in a piecemeal fashion, no matter also if the long-term funding of these stimulus policies is not yet very clear at the moment.

In parallel with this strengthening of the role of the State, more and more voices can be heard questioning the idea of open borders and the frantic pace of globalization in recent years. While President Trump described the covid virus as a "Chinese" virus, Chinese authorities have attributed the pandemic to a conspiracy by the United States. It would not be surprising to see the covid crisis further strain international trade relations and impact the boom in trade.

In this uncertain context, Euler Hermes stands ready. As noted above, the current environment will translate into lower revenues and deteriorating claims experience. The company has however demonstrated in the past its ability to tackle crises and to preserve both the interests of its customers and the quality of its results, and it will be the same this time. First by adjusting the company's risk exposures, but also in collaboration with the various public authorities to develop innovative solutions which make it possible to preserve both the central role of credit insurance in the economy and the financial solidity of its players. The company also continues its efforts in three known directions: increasing efficiency and reducing costs, digitalizing the supply of products and services, and diversifying into new product lines.

1.10 Non-financial information

The consolidated non-financial statement for the group established in Germany by the parent company Allianz Group anticipates the requirements of the transposition into German law of the European Directive 2014/95 / EU on the publication of extra-financial information by companies in Germany presenting the business model, the main risks as well as the policies and indicators that respond to them. This statement is attached to this report.

As such, the Belgian subsidiary of Allianz Group (Euler Hermes SA) is exempted from issuing and publishing a non-financial declaration since its parent company Allianz Group, incorporated in a Member State of the European Economic Area (EEE), has prepared and published, outside Belgium, a consolidated non-financial statement for the group, of which the relevant subsidiary (Euler Hermes SA) is part of and is included in the scope of consolidation. The Belgian subsidiary (Euler Hermes SA) is part of the group and is included in the scope of consolidation of the group. Considering that the non-financial information published at the Group level is in line with the aforementioned European Directive, Euler Hermes SA has complied with the provisions of the Companies Code (Article 3:6, §4 for the management report on the annual financial statements and Article 3:32, §2 for the management report on the consolidated financial statements) in this area.

1.11 Other legal disclosures

Pursuant to section 3:32 of the Companies Code, the non-listed items in this management report on the consolidated accounts of Euler Hermes SA / NV on 31 December 2019 can be found either in the disclosures to the financial statements or in the management report on the statutory financial statements of December 31, 2019 approved by the General Meeting of May 13, 2020.

These are the followings:

- Art. 3:32 of the Companies Code, § 1:

"[...] A description of the principal risks and uncertainties to which all companies included in the consolidation scope are facing";

- Art. 3:32 of the Companies Code, § 5:

"Regarding the use of financial instruments by the company and, where relevant for the assessment of its assets, liabilities, financial position and result:

- The objectives and policies of all companies included in the consolidation scope in terms of financial risk management, including its policy for hedging each major type of forecasted transaction for which it makes use of hedge accounting, and
- Exposure of all the companies included in the consolidation scope to price risk, credit risk, liquidity risk and cash flow risk ";

- Art. 3:32 of the Companies Code, § 6:

"[...] The justification for the independence and competence in accounting and audit of at least one member of the audit committee."

Brussels, April 23, 2020

Mr Wilfried Verstraete

Chairman of the Executive Committee ("Comité de Direction")

Mr. Frédéric Bizière

Member of the Management Committee