

# **Euler Hermes UK plc**

## **FINANCIAL STATEMENTS**

**YEAR ENDED 31 December 2009**

**1 Canada Square  
London E14 5DX**

***Company Number 149786***

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# **Euler Hermes UK plc**

**Year Ended 31 December 2009**

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# Euler Hermes UK plc

## COMPANY DETAILS

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### DIRECTORS

P G Ward  
F Desnos  
N Hein  
M A A Mollard  
A S Melcher  
A Roger  
W Verstraete

Chairman  
Chief Executive

### SECRETARY

R Barnett

### AUDITORS

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB

### REGISTERED OFFICE

1 Canada Square  
London E14 5DX

# Euler Hermes UK plc

*Company Number 149786*

## **REPORT OF DIRECTORS** **Year ended 31 December 2009**

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The Directors have pleasure in submitting their annual report together with the audited Financial Statements of the Company for the Year ended 31 December 2009

### **Principal Activity**

Euler Hermes UK plc's principal activity relates to the underwriting of credit insurance with customers from the United Kingdom, Ireland and overseas. Its aim is to provide its clients with comprehensive insurance solutions covering their credit insurance risks, be they domestic or export, commercial or political.

### **Review of the Business, Results and Future Developments**

The continued downturn in the UK economy, year-on-year GDP growth is negative 4.8%, has meant that the number of corporate insolvencies has again increased markedly in 2009 after a significant increase in 2008. As at the end of Q3, the year-on-year rise in corporate insolvencies stood at 15% representing firm evidence of the continued impact of the downturn in the UK economy and the financial crisis.

From the start of last year specific, and wide-ranging, action plans have been implemented to combat the economic crisis. In the Risk area, the total level of exposure, in both domestic and export markets, has been significantly reduced while in the Commercial area there have been equally significant price increases and a number of policies with very high loss ratios were not re-quoted on. The economic situation has presented our business with an unprecedented challenge in utilising our expertise to protect the best interests of our customers, shareholders and employees.

The Board monitors performance against a number of key performance indicators including those set out below.

Gross written premium declined by 11% mainly due to a very high level of wastage within the commercial area although this was countered by significant price increases which has been a primary focus in 2009 to reflect the increased risk underlying our policy portfolio. Net written premium fell by a higher level, 35%, due to the impact of the change in reinsurance conditions for the amount ceded from underwriting year 2009.

Gross claims paid increased by 66%, due to the payment of much of the claims relating to 2008 and the continued downturn in the economic environment in 2009. After deduction of reinsurers' share of claims paid, the increase in net charge was slightly under the gross figure at 53%.

In 2009, the change in net provision for claims shows a credit of £3,504,000 compared to a debit of £34,715,000 in 2008. The net incurred claims charge, at £67,877,000, shows a decrease of £13,388,000. At 31 December 2009, the net loss ratio stands at 92.7% against 94.6% in 2008.

# **Euler Hermes UK plc**

## **REPORT OF DIRECTORS (Cont'd)**

**Year ended 31 December 2009**

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### **Review of the Business, Results and Future Developments (cont'd)**

Net operating expenses, at £30,939,000, show a fall of 15% over last year due principally to the increase of reinsurance commission linked to lower retention of premium

The net operating expenses represent 42.3% of net earned premium, compared with 42.2% in 2008

The drawing from the equalisation reserve amounted to £2,417,000 or 4.1% of net premiums written in the year compared to £30,663,000 in 2008. The total equalisation reserve at 31 December 2009 amounted to £0. After the equalisation reserve, the balance on the technical account showed a loss of £22,760,000 against a loss of £663,000 in the prior year.

Net profit from investments amounted to £7,212,000 in 2009 against £6,478,000 in 2008 which included £4,224,000 realised gains on the sale of bonds. Investments totalled £171,961,000 at 31 December 2009 (£163,626,000 at 31 December 2008).

Overall, and after the drawing from the equalisation reserve, the loss after tax amounts to £11,021,000.

The company was provided with £32,000,000 of subordinated loans (lower tier II) so that it finishes 2009 with an adequate capital position.

In 2010, the Board expects a gradual improvement during the year resulting in a return to growth in the economy and some easing of the availability of credit.

The Company is confident in the quality of its unique risk database and underwriting capacities. Nevertheless, the Board expects the 2010 result to continue to be affected by the environment.

### **Service Company structure in the UK**

With effect from 1 January 2008 Euler Hermes Management UK Ltd (EHM), was created to provide all services necessary for the commercial operation of all UK based Euler Hermes companies. As a result all employees are seconded from EHM to the group operating companies and the provision of all administration expenses are now incurred by EHM and recharged to each operating Company on an agreed basis between the parties concerned. Accordingly all tangible fixed assets and the associated liabilities together with its UK defined benefit pension scheme were transferred to EHM with effect from 1 January 2008. The Company however remains the guarantor of the Euler Hermes UK pension fund in its capacity as principle operating subsidiary.

# **Euler Hermes UK plc**

## **REPORT OF DIRECTORS (Cont'd)** **Year ended 31 December 2009**

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### **Dividends**

The Directors do not recommend payment of a dividend for the year ended 31 December 2009 (2008: £Nil).

### **Financial Risks**

The Company's policies in respect of financial instruments and risk management are detailed in Note 23.

### **Directors**

The following served as Directors during the year:

|                  |                        |
|------------------|------------------------|
| F Desnos         |                        |
| N Hein           |                        |
| M A A Mollard    |                        |
| A Roger          |                        |
| C A F von Weichs | Resigned 31 March 2009 |
| P G Ward         |                        |
| A S Melcher      |                        |
| W Verstraete     | Appointed 25 June 2009 |

### **Indemnity insurance**

The directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### **Donations**

During the year, the Company made charitable donations of £Nil (2008: £Nil) No political donations were made.

# **Euler Hermes UK plc**

## **REPORT OF DIRECTORS (Cont'd)**

**Year ended 31 December 2009**

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### **Branches**

The Company has branches established in Republic of Ireland and Switzerland. Switzerland branch is in run-off and is no longer involved in any active underwriting activity. The company plans to completely close this branch in the next year. The Singapore branch was closed during the year.

### **Policy and Practice on Payment of Creditors**

It is Company policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice.

Suppliers are paid centrally for the UK Group by the service company Euler Hermes Management UK Ltd and the Directors believe it is helpful to give the disclosures on a Group basis. Trade creditors days of the Group for the Year ended 31 December 2009 were 21 days (2008: 12 days).

# Euler Hermes UK plc

## REPORT OF DIRECTORS (Cont'd) Year ended 31 December 2009

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### Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

- 1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the Year ended 31 December 2009 of which the auditors are unaware; and
- 2) the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and will therefore continue in office

By Order of the Board



R Barnett  
Secretary

Dated: 11 FEB 2010  
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# **Euler Hermes UK plc**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

# **Euler Hermes UK plc**

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE COMPANY**

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We have audited the financial statements of Euler Hermes UK plc for the year ended 31<sup>st</sup> December 2009 set out on pages 10 to 34. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31<sup>st</sup> December 2009 and of its loss for the year then ended.
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Euler Hermes UK plc

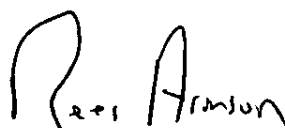
## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE COMPANY (Cont'd)

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### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Rees Aronson (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
Chartered Accountants  
8 Salisbury Square  
London EC4Y 8BB

**Dated:** .....11/2/10.....

# Euler Hermes UK plc

## PROFIT AND LOSS ACCOUNT

Year ended 31 December 2009

### TECHNICAL ACCOUNT - GENERAL BUSINESS

|  | <u>Notes</u> | <u>2009</u><br>£'000   | <u>Restated</u><br><u>2008</u><br>£'000 |
|--|--------------|------------------------|---|
| Gross premiums written                                       |              | 126,886                | 142,850                                 |
| Outwards reinsurance premiums                                |              | (67,905)               | (52,164)                                |
| <b>Net premiums written</b>                                  |              | <b>58,981</b>          | <b>90,686</b>                           |
| Change in gross provision for unearned premiums              |              | 6,736                  | (8,796)                                 |
| Change in provision for unearned premiums, reinsurers' share |              | 7,504                  | 4,006                                   |
| Change in net provision for unearned premiums                |              | 14,240                 | (4,790)                                 |
| <b>Earned premiums, net of reinsurance</b>                   |              | <b>73,221</b>          | <b>85,896</b>                           |
| Other technical income - information charges                 |              | 418                    | 288                                     |
|  |              | <u>73,639</u>          | <u>86,185</u>                           |
| <b>Claims paid</b>   |              |                        |   |
| Gross amount   |              | (110,247)              | (66,356)                                |
| Reinsurers' share  |              | 38,866                 | 19,807                                  |
| <b>Net claims paid</b>                                       |              | <b>(71,381)</b>        | <b>(46,550)</b>                         |
| <b>Change in provision for claims</b>                        |              |                        |   |
| Gross amount   |              | 3,283                  | (68,401)                                |
| Reinsurers' share  |              | 221                    | 33,686                                  |
| <b>Change in net provision for claims</b>                    |              | <b>3,504</b>           | <b>(34,715)</b>                         |
| <b>Claims incurred, net of reinsurance</b>                   |              | <b>(67,877)</b>        | <b>(81,265)</b>                         |
| Net operating expenses                                       | 4            | (30,939)               | (36,246)                                |
| Change in equalisation provision                             | 17           | 2,417                  | 30,663                                  |
| <b>Balance on the general business technical account</b>     |              | <b><u>(22,760)</u></b> | <b><u>(663)</u></b>                     |

The accounting policies and notes on pages 15 to 33 to the financial statements form an integral part of these financial statements.

# Euler Hermes UK plc

## PROFIT AND LOSS ACCOUNT (Cont'd) Year ended 31 December 2009

### NON-TECHNICAL ACCOUNT

|  | <u>Notes</u> | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|--|--------------|----------------------|----------------------|
| <b>Balance on the general business technical account</b>           |              | (22,760)             | (663)                |
| Investment income  | 5            | 4,190                | 6,631                |
| Investment expenses and charges                                    |              | (1,202)              | (218)                |
| Realised gains on available for sale investments                   |              | 4,224                | 64                   |
|  |              | 7,212                | 6,478                |
| Other (charges) / income   |              | (378)                | 6,253                |
| <b>(Loss)/Profit on ordinary activities before taxation</b>        |              | <u>(15,926)</u>      | <u>12,068</u>        |
| Tax on loss/(profit) on ordinary activities                        | 6            | 4,905                | (3,415)              |
| <b>(Loss)/Profit on ordinary activities for the financial year</b> | 15           | <u>(11,021)</u>      | <u>8,653</u>         |

All activities of the Company are regarded as continuing

The accounting policies and notes on pages 15 to 33 to the financial statements form an integral part of these financial statements.

# Euler Hermes UK plc

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 31 December 2009

|  | <u>Notes</u> | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|--|--------------|----------------------|----------------------|
| <b>(Loss)/Profit for the financial year</b>                        |              | (11,021)             | 8,653                |
| Unrealised (losses) / gains on available for sale financial assets |              | (6,212)              | 6,665                |
| Tax on other recognised gains and losses                           | 6            | 1,740                | (1,866)              |
|  |              | (4,472)              | 4,799                |
| <b>Total recognised gains and losses relating to the year</b>      |              | <u>(15,493)</u>      | <u>13,452</u>        |

The accounting policies and notes on pages 15 to 33 to the financial statements form an integral part of these financial statements.

# Euler Hermes UK plc

## BALANCE SHEET

As at 31 December 2009

| ASSETS  | Notes | 2009<br>£'000  | Restated<br>2008<br>£'000 |
|---|-------|----------------|---------------------------|
| <b>Intangible Assets</b>                            | 7     | 4,298          | 5,399                     |
| <b>Investments</b>                                  |       |                |                           |
| Other financial investments                         | 8     | 171,522        | 163,206                   |
| Deposits with ceding undertakings                   |       | 439            | 420                       |
|   |       | 171,961        | 163,626                   |
| <b>Reinsurers' share of technical provisions</b>    |       |                |                           |
| Provision for unearned premiums                     |       | 25,107         | 17,603                    |
| Claims outstanding                                  |       | 56,307         | 54,167                    |
|   |       | 81,414         | 71,770                    |
| <b>Debtors</b>                                      |       |                |                           |
| Debtors arising out of direct insurance operations: |       |                |                           |
| -policyholders                                      |       | 36,674         | 43,417                    |
| -intermediaries                                     |       | 9,205          | 15,753                    |
| Debtors arising out of reinsurance operations       |       | 6,707          | 29                        |
| Other debtors                                       | 9     | 25,560         | 15,726                    |
|   |       | 78,146         | 74,925                    |
| <b>Other assets</b>                                 |       |                |                           |
| Cash at bank and in hand                            |       | 5,014          | 4,954                     |
| <b>Prepayments and accrued income</b>               |       |                |                           |
| Accrued interest                                    |       | 1,632          | 1,560                     |
| Deferred acquisition costs                          |       | 9,502          | 10,153                    |
| Other prepayments                                   |       | 3              | 3                         |
|   |       | 11,137         | 11,716                    |
| <b>TOTAL ASSETS</b>                                 |       | <u>351,970</u> | <u>332,390</u>            |

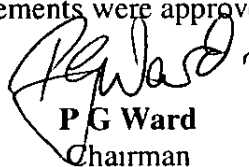
The accounting policies and notes on pages 15 to 33 to the financial statements form an integral part of these financial statements.

# Euler Hermes UK plc

## BALANCE SHEET (Cont'd) As at 31 December 2009

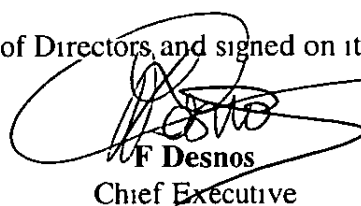
|   |              |                      | <u>Restated</u>      |
|---|--------------|----------------------|----------------------|
| <b>LIABILITIES</b>  | <u>Notes</u> | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
| <b>Capital and reserves</b>                                 |              |                      |                      |
| Called up share capital                                     | 11           | 21,003               | 21,003               |
| Share premium account                                       | 12           | 28,773               | 28,773               |
| Revaluation reserve   | 13           | 1,653                | 6,125                |
| Profit and loss account                                     | 14           | 18,472               | 29,493               |
| <b>Shareholders' funds attributable to equity interests</b> | 15           | 69,901               | 85,394               |
| <b>Subordinated loans</b>                                   | 16           | 32,000               | -                    |
| <b>Technical provisions</b>                                 |              |                      |                      |
| Provision for unearned premiums                             |              | 46,606               | 53,637               |
| Claims outstanding  |              | 134,407              | 132,908              |
| Equalisation provision                                      | 17           | -                    | 2,417                |
|   |              | 181,013              | 188,962              |
| <b>Deposits received from reinsurers</b>                    |              | 33,526               | 12,155               |
| <b>Creditors</b>  |              |                      |                      |
| Creditors arising out of direct insurance operations        |              | 9,521                | 11,162               |
| Creditors arising out of reinsurance operations             |              | 11,843               | 7,495                |
| Other creditors   | 18           | 10,953               | 22,810               |
|   |              | 32,317               | 41,467               |
| <b>Accruals and deferred income</b>                         |              |                      |                      |
| Unearned reinsurance commission                             |              | 396                  | 654                  |
| Other accruals  |              | 2,817                | 3,758                |
|   |              | 3,213                | 4,412                |
| <b>TOTAL LIABILITIES</b>                                    |              | <u>351,970</u>       | <u>332,390</u>       |

These financial statements were approved by the Board of Directors and signed on its behalf by

  
P G Ward  
Chairman

11 FEB 2010

Dated: .....

  
F Desnos  
Chief Executive

11 FEB 2010

Dated: .....

The accounting policies and notes on pages 15 to 33 to the financial statements form an integral part of these financial statements



# Euler Hermes UK plc

## ACCOUNTING POLICIES

Year ended 31 December 2009

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### **Basis of preparation**

The Financial Statements of the Company have been prepared in accordance with applicable accounting standards in the United Kingdom

The Financial Statements have also been prepared in accordance with Section 255 of, and Schedule 3 to, the Companies Act 2006 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005 (amended in 2006).

The company is a member of the Euler Hermes Holdings UK group and has considerable financial resources together with very prudent investment guidelines and high quality of assets, strict underwriting procedures supported by state of the art systems, controls and risk mitigating processes (including, but not limited to, reinsurance).

As a consequence, the Directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors are confident that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

With effect from 1 January 2008 Euler Hermes Management UK Ltd (EHM), was created to provide all services necessary for the commercial operation of all UK based Euler Hermes companies. As a result all employees are seconded from EHM to the group operating companies and the provision of all administration expenses are now incurred by EHM and recharged to each operating Company on an agreed basis between the parties concerned. Accordingly all tangible fixed assets and the associated liabilities together with its UK defined benefit scheme were transferred to EHM with effect from 1 January 2008. The Company however remains the guarantor of the Euler Hermes UK pension fund in its capacity as principle operating subsidiary.

The 2008 staff cost figures have been restated due to a classification error.

### **Changes in accounting policies and impact of new Standards and Interpretations adopted**

#### *Implementation of Amendments to FRS 29 – Improving Disclosures about Financial Instruments*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements are disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is required, as well as disclosure of significant transfers between different levels in the fair value hierarchy. A change made to a valuation technique must be disclosed together with the reason for making the change. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 8. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 23.

# **Euler Hermes UK plc**

## **ACCOUNTING POLICIES (Cont'd)** **Year ended 31 December 2009**

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### **Basis of accounting**

The Company accounts for its insurance business on an annual basis

Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of additional, or potential rebates for premiums due but not yet notified to the Company. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business

The risk covered under the policy relates to the non-payment of debtor balances arising from the supply of goods or services by the insured. The risk incidence is defined as the date of shipment or the supply of service. Only shipments made or services supplied within the policy dates are covered under the policy and so the premium is earned over the term of the policy

There is no marked unevenness in the insured turnover and so this premium is earned evenly over the period of the policy. Unearned premiums represent the proportion of premiums written in the year that related to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. In the opinion of the Directors the resulting provision is not materially different from one based on the pattern of incidence of risk

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

Financial guarantees are accounted for as insurance contracts

### **Reinsurers' Share of Provision for Unearned Premium**

In 2008, the reinsurers' share of provision for unearned premiums was netted off against creditors arising out of reinsurance operators. In 2009, the reinsurers' share of provision for unearned premium is disclosed on a gross basis and comparative figures have been restated.

### **Claims provisions and related salvage and reinsurance recoveries**

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

# **Euler Hermes UK plc**

## **ACCOUNTING POLICIES (Cont'd)** **Year ended 31 December 2009**

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### **Claims provisions and related salvage and reinsurance recoveries (cont'd)**

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. The level of IBNR claims, and hence related uncertainty, is particularly high in the most recent accident year. Consequently, the Company includes an appropriate degree of caution in the exercise of the judgement required for setting provisions such that liabilities are not understated.

Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the credit rating of buyers which may result in cover being reduced on those buyers who are perceived to be a higher risk,
- changes in the Company's risk monitoring strategy which might affect the risk profile of the company and the pattern of future claims payments,
- the effects of inflation and the pricing of policies; and
- the impact of large losses

A component of these estimation techniques is usually the estimation of cost of notified but not paid claims. In estimating the cost of these the company has regard to the claim circumstance as reported, any information available from liquidators and information on the cost of settling claims with similar characteristics in previous periods.

Where possible the company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes.

The estimate of related salvage recoveries is made using the same techniques above. Anticipated salvage recoveries at the year end are included within other debtors.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

### **Equalisation provision**

Amounts are set aside as equalisation provisions in accordance with the Prudential Sourcebook for Insurers, issued by the Financial Services Authority, for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 9A to the

Companies Act 2006 to be included within technical provisions.

### **Unexpired risk provision**

An unexpired risk provision is provided only to the extent of any deficiencies arising when unearned premiums, net of associated acquisition costs and future investment return of the investments supporting the unearned premium and unexpired risk provisions, are insufficient to meet expected claims and expenses having regard to events that have occurred up to the Balance Sheet date

### **Translation of currency**

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the Balance Sheet date. Transactions are translated at the actual rate on the date of the transactions. All differences on exchange are dealt with through the Profit and Loss Account

### **Intangible assets**

Purchased goodwill and other intangibles assets are amortised on a straight line basis over their estimated useful economic lives. In the case of the goodwill and other intangible assets arising on the acquisition of credit insurance business from Allianz Corporate Ireland plc, the useful economic life was estimated to be 10 years from 27 October 2006. As a result of an impairment review in 2009 the written down balance at 1 January 2009 is now being amortised over 5 years. Amortisation of goodwill is included in net operating expenses in the Profit and Loss Account.

### **Financial Assets**

The Company classifies all of its investments as available-for-sale financial assets.

Available-for-sale financial assets are initially recognised at fair value. Subsequently, movements in the fair value of available-for-sale financial assets are shown as unrealised gains and losses in the Statement of Total Recognised Gains and Losses. These unrealised gains and losses are then included in the Revaluation Reserve. Impairment losses are recognised in the Profit and Loss Account when there has been either a prolonged decline in the fair value of the financial asset or if there has been a significant decline in fair value.

All these investments are valued at market value using the bid-market price

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels.

- (a) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- (c) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

# **Euler Hermes UK plc**

## **ACCOUNTING POLICIES (Cont'd)** **Year ended 31 December 2009**

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The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

When an asset is derecognised (for example, through a disposal) or impaired, the cumulative gain or loss previously recognised in the Statement of Total Recognised Gains and Losses is transferred to the Profit and Loss Account.

Investment income is accounted for on an accruals basis and includes the amortisation of any discount or premium on bonds. Dividends are recognised on the date on which the related investments are marked ex-dividend. Interest income is accrued up to the balance sheet date.

Realised gains and losses represent the difference between net sales proceeds and original cost, or in the case of bonds, amortised cost. Realised gains and losses are recognised in the Profit and Loss Account when an asset is disposed.

### **Deferred tax**

Deferred tax is provided in full on all timing differences. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is calculated at the rates at which it is expected that the tax liability or benefit will arise. Deferred tax is recognised in the profit and loss account for the period except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains or losses. Deferred tax balances are not discounted.

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2009

|                                  |             |             |
|----------------------------------|-------------|-------------|
| <b>1. Profit before taxation</b> | <u>2009</u> | <u>2008</u> |
|                                  | £'000       | £'000       |

Profit before taxation is stated after charging.

Auditors' remuneration

|  |     |     |
|--|-----|-----|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 169 | 166 |
|--|-----|-----|

|                                   |              |            |
|-----------------------------------|--------------|------------|
| Amortisation of intangible assets | <u>1,101</u> | <u>690</u> |
|-----------------------------------|--------------|------------|

## 2. Segmental reporting

Segmental analysis by geographical area is not given as substantially all of the Company's policies were concluded in the United Kingdom and Ireland.

## 3. Prior years' claims provisions

A negative run-off deviation, net of reinsurance, of £11,145,000 (2008: £8,371,000 positive run off) was experienced during the year

## 4. Net operating expenses

|                                 |             |             |
|---------------------------------|-------------|-------------|
| Net operating expenses comprise | <u>2009</u> | <u>2008</u> |
|                                 | £'000       | £'000       |

|                   |        |        |
|-------------------|--------|--------|
| Acquisition costs | 25,511 | 30,708 |
|-------------------|--------|--------|

|                                      |     |         |
|--------------------------------------|-----|---------|
| Change in deferred acquisition costs | 526 | (4,194) |
|--------------------------------------|-----|---------|

|                         |        |        |
|-------------------------|--------|--------|
| Administrative expenses | 24,796 | 27,513 |
|-------------------------|--------|--------|

|                        |          |          |
|------------------------|----------|----------|
| Reinsurance commission | (19,894) | (17,781) |
|------------------------|----------|----------|

|  |               |               |
|--|---------------|---------------|
|  | <u>30,939</u> | <u>36,246</u> |
|--|---------------|---------------|

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

### 5. Investment income

|   | <u>2009</u>  | <u>2008</u>  |
|---|--------------|--------------|
|   | £'000        | £'000        |
| Interest income on available-for-sale financial assets:               | 4,019        | 6,551        |
| Interest income on cash at bank and deposits with ceding undertakings | 1            | 42           |
| Other interest receivable   | 170          | 38           |
|   | <u>4,190</u> | <u>6,631</u> |

### 6. Taxation

|  | <u>2009</u>    | <u>2008</u>  |
|--|----------------|--------------|
|  | £'000          | £'000        |
| <b>Analysis of (credit)/charge in year</b>   |                |              |
| Current tax:   |                |              |
| UK Corporation Tax on (loss)/profit for the period                                 | (5,100)        | 4,596        |
| Adjustment in respect of previous periods  | (365)          | -            |
| Total current tax  | <u>(5,465)</u> | <u>4,596</u> |
| Deferred taxation  | <u>(1,180)</u> | <u>685</u>   |
| Total tax (credit)/ charge   | <u>(6,645)</u> | <u>5,281</u> |
| <br>(Credited)/ charged through the Profit and Loss Account:                       |                |              |
| Current taxation   | (3,725)        | 2,730        |
| Deferred taxation  | (1,180)        | 685          |
|  | <u>(4,905)</u> | <u>3,415</u> |
| <br>(Credited)/ charged through the Statement of Total Recognised Gains and Losses |                |              |
| Current taxation   | (1,740)        | 1,866        |
| Deferred taxation  | -              | -            |
|  | <u>(1,740)</u> | <u>1,866</u> |
| Total tax (credit)/ charge   | <u>(6,645)</u> | <u>5,281</u> |

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

| 6. Taxation (cont'd)  | 2009     | 2008   |
|---|----------|--------|
| Factors affecting the tax charge for the year   | £'000    | £'000  |
| (Loss)/Profit on ordinary activities before tax   | (15,926) | 12,068 |
| Loss on ordinary activities multiplied by the standard rate of corporate tax in the UK of 28% in 2009 (2008: 28.5%) | (4,460)  | 3,439  |
| Additional corporation tax receivable on a proportion of the loss carried back against 2008 profits taxed at 28.5%  | (80)     | -      |
| Transfer to deferred tax of a proportion of the loss carried forward to be offset against future profits            | 1,180    | -      |
| Unrealised gains and losses on investments subject to tax   | (1,740)  | 1,866  |
| Defined benefit pension liability transferred to Euler Hermes Management UK Ltd on 1 January 2008                   | -        | (698)  |
| Adjustments to tax charge in respect of previous periods  | (365)    | (11)   |
| Current tax (credit)/ charge for the period   | (5,465)  | 4,596  |

## 7. Intangible assets

|                              | Purchase of Ireland credit insurance business |                               |       |
|------------------------------|---|-------------------------------|-------|
|                              | Goodwill                                      | Other: customer relationships | Total |
|                              | £'000   | £'000                         | £'000 |
| <u>Cost</u>                  |   |                               |       |
| At 1 January 2009            | 5,187   | 1,705                         | 6,892 |
| Additions                    | -   | -                             | -     |
| At 31 December 2009          | 5,187   | 1,705                         | 6,892 |
| <u>Amortisation</u>          |   |                               |       |
| At 1 January 2009            | 1,124   | 369                           | 1,493 |
| Amortisation during the year | 833   | 268                           | 1,101 |
| At 31 December 2009          | 1,957   | 637                           | 2,594 |
| <u>Net Book Value</u>        |   |                               |       |
| At 31 December 2009          | 3,230   | 1,068                         | 4,298 |
| At 31 December 2008          | 4,063   | 1,336                         | 5,399 |



# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

### 8. Other financial investments

The financial asset investments are summarised by measurement categories as follows

|                                     | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|-------------------------------------|----------------------|----------------------|
| Available-for-sale financial assets | <u>171,522</u>       | <u>163,206</u>       |

Available-for-sale financial assets consist of

|   | <u>Market Value</u>  |                      | <u>Amortised cost / cost</u> |                      |
|---|----------------------|----------------------|------------------------------|----------------------|
|   | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 | <u>2009</u><br>£'000         | <u>2008</u><br>£'000 |
| Debt securities and other fixed income securities | 145,993              | 119,154              | 143,634                      | 110,582              |
| Other loans                                       | -                    | 26,763               | -                            | 26,763               |
| Deposits with credit institutions                 | 25,529               | 17,290               | 25,529                       | 17,290               |
|   | <u>171,522</u>       | <u>163,206</u>       | <u>169,163</u>               | <u>154,635</u>       |

Listed investments included in market values above are as follows.

|  | <u>Market Value</u><br><u>2009</u><br>£'000 |
|--|---|
| Debt securities and other fixed income securities, classified as Level 1 in accordance with FRS 29, amended. | <u>145,993</u><br><u>145,993</u>            |

Included within Level 1 are securities which are measured based on quoted market prices or trades occurring on 31<sup>st</sup> December and include government securities and a corporate bond. There have been no transfers to and from Level 1 during the year. There are no liabilities that require disclosure under the fair value hierarchy.

Other loans of £26,762,500 (2008) were repaid during the year.

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

| 9. Other debtors                    | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|-------------------------------------|----------------------|----------------------|
| Amounts due from group undertakings | -                    | 440                  |
| Salvage recoverable                 | 19,059               | 13,305               |
| Corporation tax recoverable         | 5,100                | -                    |
| Deferred taxation                   | 1,180                | -                    |
| Other debtors                       | 221                  | 1,981                |
|                                     | <u>25,560</u>        | <u>15,726</u>        |

| 10. Deferred tax  | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|---|----------------------|----------------------|
| Asset at 1 January  | -                    | (975)                |
| Transfer to fellow group undertaking                        | -                    | 290                  |
| (Credit)/Charge in the Profit and Loss Account for the year | (1,180)              | 685                  |
| Asset at 31 December at 28%                                 | <u>(1,180)</u>       | <u>-</u>             |
| Included in other debtors                                   | <u>(1,180)</u>       | <u>-</u>             |

Analysis of deferred tax asset:  
Loss carried forward

|                |          |
|----------------|----------|
| <u>(1,180)</u> | <u>-</u> |
|----------------|----------|

The deferred tax amount arising in the year relates to a proportion of the loss incurred which is to be carried forward to be relieved against future profits earned.

| 11. Called up share capital               | <u>2009</u><br>Number of<br>Shares | <u>2008</u><br>Number of<br>Shares | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|---|------------------------------------|------------------------------------|----------------------|----------------------|
| <u>Authorised</u>                         |                                    |                                    |                      |                      |
| Ordinary Shares of 25p each               |                                    |                                    |                      |                      |
| At 01.01 09 and at 31.12 09               | <u>84,400,000</u>                  | <u>84,400,000</u>                  | <u>21,100</u>        | <u>21,100</u>        |
| <u>Allotted, called up and fully paid</u> |                                    |                                    |                      |                      |
| Ordinary shares of 25p each.              |                                    |                                    |                      |                      |
| At 01 01 09 and at 31 12 09               | <u>84,009,527</u>                  | <u>84,009,527</u>                  | <u>21,003</u>        | <u>21,003</u>        |

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

|  |                      |                      |
|--|----------------------|----------------------|
| <b>12. Share premium</b>   | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
| At 1 January and 31 December   | <u>28,773</u>        | <u>28,773</u>        |
| <b>13. Revaluation reserve</b>   | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
| <u>On available-for-sale financial assets</u>                          |                      |                      |
| At 1 January   | 6,125                | 1,326                |
| Unrealised (losses) / gains, net of tax                                | (4,472)              | 4,799                |
| At 31 December   | <u>1,653</u>         | <u>6,125</u>         |
| <b>14. Profit and loss account reserve</b>                             | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
| At 1 January   | 29,493               | 33,340               |
| (Loss) / Profit for the year   | (11,021)             | 8,653                |
| Dividend paid (2008: 14 88p per share)                                 | -                    | (12,500)             |
| At 31 December   | <u>18,472</u>        | <u>29,493</u>        |
| <b>15. Reconciliation of movements in shareholders' funds</b>          | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
| (Loss) / Profit for the financial year                                 | (11,021)             | 8,653                |
| Dividend   | -                    | (12,500)             |
|  | <u>(11,021)</u>      | <u>(3,847)</u>       |
| Unrealised (losses) / gains on available for sale assets, net of taxes | (4,472)              | 4,799                |
| Net increase / (reduction) in shareholders' funds                      | <u>(15,493)</u>      | <u>952</u>           |
| Opening shareholders' Funds  | 85,394               | 84,442               |
| Closing shareholders' Funds  | <u>69,901</u>        | <u>85,394</u>        |

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

| 16. Subordinated Loans            | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|-----------------------------------|----------------------|----------------------|
| Payable within more than 1 year:  |                      |                      |
| Amounts due to group undertakings | <u>32,000</u>        | <u>-</u>             |

Subordinated loans of £32,000,000 (2008: £nil) consist of the following:

Unsecured undated loan from Euler Hermes SA of £18,000,000 due for repayment no earlier than 30 April 2014.

Unsecured undated loan from Euler Hermes SA of £9,000,000 due for repayment no earlier than 9 July 2014

Unsecured undated loan from Euler Hermes SA of £5,000,000 due for repayment no earlier than 2 December 2014

All three subordinated loans carry interest as from the effective date at the rate of LIBOR GBP 12 months plus 400 basis points. Interest is due yearly from the effective date.

## 17. Equalisation provision

As explained in the accounting policies an equalisation provision is established in the financial statements. The provision of £2,417,000 at end of 2008 was fully released into the Profit and Loss Account in 2009

| 18. Other creditors                                       | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|---|----------------------|----------------------|
| Payable within one year:                                  |                      |                      |
| Amounts due to group undertakings                         | 1,921                | 13,284               |
| Corporation tax   | -                    | 3,456                |
| Other creditors including other taxes and social security | 2,515                | 1,482                |
| Reinsurers' share of salvage recoverable                  | <u>6,517</u>         | <u>4,588</u>         |
|   | <u>10,953</u>        | <u>22,810</u>        |

The estimated fair value of amounts due to group undertakings is not significantly different to the value disclosed above as the balances are repayable on demand.

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

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### 19. Staff numbers and costs

All staff are employed by Euler Hermes Management UK Ltd a service company and fellow group subsidiary. Other pension costs are contributions to the defined benefit pension scheme which is fully disclosed in Euler Hermes Management UK Limited. The 2008 staff cost figures have been restated due to a classification error. The following amounts were recharged to the company in respect of staff costs:

|                       | <u>2009</u>   | <u>2008</u><br><u>Restated</u> |
|-----------------------|---------------|--------------------------------|
| <b>Staff Costs</b>    |               |                                |
| Wages and salaries    | 16,960        | 17,414                         |
| Social security costs | 1,746         | 1,647                          |
| Other pension costs   | 3,321         | 3,247                          |
|                       | <u>22,027</u> | <u>22,308</u>                  |

The monthly average number of persons employed by the service company but made available to the Company during 2009 was 375 (2008: 374), analysed as follows

|                                | <u>2009</u> | <u>2008</u> |
|--------------------------------|-------------|-------------|
| <b>Average number of staff</b> |             |             |
| Underwriting                   | 123         | 109         |
| Claims                         | 23          | 20          |
| Administrative                 | 229         | 238         |
|                                | <u>375</u>  | <u>374</u>  |

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

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### 20. Directors' remuneration

The directors of the company received the following aggregate remuneration charged to the company and included within net operating expenses.

|                                   | <u>2009</u> | <u>2008</u> |
|-----------------------------------|-------------|-------------|
|                                   | £'000       | £'000       |
| Directors' remuneration comprises |             |             |
| Emoluments                        | <u>316</u>  | <u>305</u>  |

The number of Directors accruing benefits under the Company Defined Benefit Pension Scheme was Nil (2008: Nil)

During the year, no Director (the highest paid Director) exercised share options (2008: Nil).

The highest paid Director's emoluments excluding pension contributions were £230,848 (2008: £222,284) The accrued pension entitlement of the highest paid Director under the Company Defined Benefit Pension Scheme at 31 December 2009 was £Nil (2008: £Nil).

### 21. Cash flow statement

The Company is a wholly owned subsidiary of Euler Hermes Holdings UK PLC, which is wholly owned by Euler Hermes SA The Company is included in the consolidated accounts of Euler Hermes SA. Consequently, the Company is exempt under the terms of Financial Reporting Standard No 1 (revised) from publishing a Cash Flow Statement.

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

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### 22. Related party transactions

The Company is a wholly owned subsidiary of Euler Hermes Holdings UK plc, which is wholly owned by Euler Hermes SA. The Company has taken advantage of the exemptions under Financial Reporting Standard No. 8 from disclosing related party transactions with these Group entities.

The Company had the following related party transactions with its ultimate parent undertaking, Allianz SE, and a fellow subsidiary, Allianz Corporate Ireland plc:

|  | <u>2009</u> | <u>2008</u>  |
|--|-------------|--------------|
|  | £'000       | £'000        |
| Gross premium earned (net of commission)                 | (129)       | 308          |
| Outwards reinsurance premiums earned (net of commission) | (41)        | (1,147)      |
| Claims incurred  | 154         | (752)        |
| Reinsurers' share of claims incurred                     | 130         | 802          |
|  | <u>114</u>  | <u>(789)</u> |

At 31 December 2008, the Company owed these Allianz companies a net balance of £617,000.

At 31 December 2009, the Company owed these Allianz companies a net balance of £26,034.

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

### 23. Financial risk management: financial instruments

#### Credit Risks

An analysis of the major exposures to counterparty credit risk excluding receivables, based on Standard & Poor's or equivalent rating is as follows.

#### As at 31 December 2009

|  | <u>AAA</u><br>£'000 | <u>AA</u><br>£'000 | <u>A</u><br>£'000 | <u>BBB</u><br>£'000 | <u>Others</u><br>£'000 | <u>Total</u><br>£'000 |
|--|---------------------|--------------------|-------------------|---------------------|------------------------|-----------------------|
| Debt and fixed income securities               | 132,595             | 13,398             | -                 | -                   | -                      | 145,993               |
| Assets arising from reinsurance contracts held | -                   | 15,842             | 208               | -                   | 2,340                  | 18,390                |
| Cash at bank and in hand                       | -                   | 4,676              | 337               | -                   | -                      | 5,013                 |
| Deposits with credit institutions              | 7,751               | 9,260              | 8,518             | -                   | -                      | 25,529                |
|  | <u>140,346</u>      | <u>43,176</u>      | <u>9,063</u>      | <u>-</u>            | <u>2,340</u>           | <u>194,925</u>        |

#### As at 31 December 2008

|  | <u>AAA</u><br>£'000 | <u>AA</u><br>£'000 | <u>A</u><br>£'000 | <u>BBB</u><br>£'000 | <u>Others</u><br>£'000 | <u>Total</u><br>£'000 |
|--|---------------------|--------------------|-------------------|---------------------|------------------------|-----------------------|
| Debt and fixed income securities               | 119,154             | -                  | -                 | -                   | -                      | 119,154               |
| Other Loans                                    | -                   | -                  | -                 | -                   | 26,763                 | 26,763                |
| Assets arising from reinsurance contracts held | -                   | 62,171             | 652               | 66                  | 3,920                  | 66,809                |
| Amounts due from group undertakings            | -                   | -                  | -                 | -                   | 10                     | 10                    |
| Cash at bank and in hand                       | -                   | 4,954              | -                 | -                   | -                      | 4,954                 |
| Deposits with credit institutions              | -                   | 17,290             | -                 | -                   | -                      | 17,290                |
|  | <u>119,154</u>      | <u>84,415</u>      | <u>652</u>        | <u>66</u>           | <u>30,693</u>          | <u>234,980</u>        |



# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

### 23. Financial risk management: financial instruments (cont'd)

#### Market and liquidity risks

Market and liquidity risks arise from the Company's investments and exposure to financial markets, interest rates and currency fluctuation. The Company's investment management policy is monitored by the Board of Directors through its Financial Committee. The Company's policy is not to deal on the market for speculative purpose and the Company operates a prudent approach to these risks and invests a significant proportion of its investments in government bonds and short-term deposits with reputable banks. Exposure to currency and interest risks are limited by the enforcement of appropriate asset / liability matching analyses. During the financial years 2009 and 2008, the Company did not use any derivative or hedging instrument in order to cover any of these risks.

The carrying amounts of financial assets and liabilities exposed to interest rate risk are due to mature as follows

|  | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|--|----------------------|----------------------|
| <u>Assets.</u>                           |                      |                      |
| Within one year                          | 76,108               | 65,990               |
| Within 2-3 years                         | 58,040               | 31,951               |
| Within 4-5 years                         | 42,725               | 21,646               |
| In more than 5 years                     | -                    | 46,449               |
|  | <u>176,873</u>       | <u>166,036</u>       |
| <u>Liabilities</u> : repayable on demand | <u>1,921</u>         | <u>13,284</u>        |

An indication of the effect of a 1% increase or 1% decrease in interest rates is shown below:

|                           | <u>1% increase</u>   | <u>1% decrease</u>   |
|---------------------------|----------------------|----------------------|
|                           | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
|                           | <u>2009</u><br>£'000 | <u>2008</u><br>£'000 |
| Effect on profit and loss | <u>294</u>           | <u>158</u>           |
|                           | <u>(119)</u>         | <u>(154)</u>         |

In arriving at the above figures, financial assets and liabilities that were exposed during the year to interest rate risk were split between those subject to fixed and those subject to variable interest rates. Those subject to variable interest rates were then considered in the above analysis. The above analysis excludes assets and liabilities held within the defined benefit pension scheme.

# Euler Hermes UK plc

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) Year ended 31 December 2009

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### 23. Financial risk management: financial instruments (cont'd)

#### Insurance risk

Insurance risk mainly refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of underwriting. The Company's risk management practice in this respect is to follow strict internal guidelines notably ensuring appropriate segregation of duties between commercial underwriting, risk underwriting and risk control. Underwriting rules and principles are enforced within the organisation to ensure that appropriate control and monitoring of the Company's exposure is in place at all times. Both proportional and non-proportional reinsurance is used to cover the Company's largest individual exposures.

#### Operational risk

Operational risk is the risk that the company may not be able to operate due to external events or internal inefficiencies. The company is continuously seeking to improve the efficiency of its operations and maintains at all time appropriate disaster recovery and business continuity plans.

#### Capital risk

The company's capital, under United Kingdom Generally Accepted Accounting Principles, was £69,901,000 (2008: £85,394,000).

Euler Hermes UK plc, as an insurance company, has externally capital requirements imposed on it by the Financial Services Authority ("the FSA"). The most notable of these are the Enhanced Capital Requirement and Individual Capital Assessment calculations. These calculations provide a risk-based view of the minimum capital that the company should hold. During the year, the company complied with these externally imposed capital requirements.

As the company is ultimately owned by Allianz SE, the company uses Allianz's Economic Value Added model to assess how it manages its capital and, at the same time, adds value to its shareholders.

The company also has regard to how its capital and financial strengths are perceived by its policyholders, reinsurers and stakeholders. Thus, the company obtains a rating from an independent rating agency. During the year, this rating agency assessed the company's financial strength as very strong.

# **Euler Hermes UK plc**

## **NOTES TO THE FINANCIAL STATEMENTS (Cont'd)** **Year ended 31 December 2009**

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### **24. Contingent liability**

At 31 December 2009 there was a contingent liability in respect of a guarantee to Euler Hermes Management UK Limited in the event that it is unable to meet the pension obligations transferred on 1 January 2008.

### **25. Ultimate and immediate parent undertaking**

The immediate parent undertaking at 31 December 2009 was Euler Hermes Holdings UK PLC, which is incorporated in Great Britain and registered in England and Wales, copies of whose Financial Statements can be obtained from 1 Canada Square, London E14 5DX.

The ultimate parent undertaking and controlling party at 31 December 2009 was Allianz SE, which is incorporated and registered in the EU as a European company, copies of whose consolidated Financial Statements can be obtained from Königinstraße 28, 80802 München, Germany.