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Garant

New Horizons

ANNUAL REPORT

2010


Garant
ONDD Group

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The insurer of choice for credit and political risk insurance.

About Garant

Garant AG provides credit and political risk insurance to support international companies in their international trade activities and overseas investments.

Specialized in emerging countries, Garant is the best partner to help you mitigate commercial and political risks arising from your contracts or projects worldwide.

Our risk experts will customize state-of-the-art insurance solutions to your specific needs. They will give you access to our intelligence networks devised with local partners in order to create a risk-controlled-environment. Managing and monitoring risks together will be the key to achieving your business expectations.

Our values guide
our behaviour,
procedures,
business decisions
and relationships.

Our values

We believe in:

- **Ethics:**

We will be well-informed of the regulations, rules and compliance issues that apply to our business around the world. We will apply this knowledge to our conduct as responsible Garant employees and will adhere to the highest standards of ethical conduct in all that we do.

- **Integrity and Honesty:**

We treat people in a fair and consistent way. We trust and respect all our fellow employees. We build trust and respect by keeping to commitments made. We are open and honest with people and engage in fair and honest business practices. "Our word is our bond"

- **Drive:**

We demonstrate energy, enthusiasm and commitment to the business. We remain resilient and optimistic when dealing with uncertainty and take responsibility for making things happen. We understand the need for change and value it as opportunity, remaining positive at all time.

- **Teamwork:**

We share information, knowledge and experience freely with others. We adapt influencing style to suit different situations and individuals. We work collaboratively with others, leveraging the expertise of our colleagues to achieve individual and team objectives.

- **Self-development:**

We are self-critical, questioning and welcome constructive feedback. We create an environment where people take risks in full accountability.

For the ONDD Group, the past year has brought great satisfaction. All of our operating units saw steady growth in premium income, quarter by quarter, while the level of claims gradually declined. We can be proud that as an insurance group we remained close to our customers and held our ground during turbulent times, laying the foundations for the recovery that is now well underway.

As stability returned to the wider credit insurance sector, the ONDD Group was well placed to benefit and we feel that our long-term development strategy has been vindicated.

We have also grown closer together, taking forward the process of integration across our group.

After the international expansion of recent years it was time to focus on deepening internal links between our individual business units, to clarify the responsibilities of each entity and those of the parent group itself.

This is a prerequisite for operation as a coherent whole, as ONDD continues to expand. We are taking the process further in 2011.

To strengthen the sense of identity across our group we have reinforced internal communications with our staff. We have also taken steps to enhance our public profile. We are a European group, active in all areas of the credit insurance market, providing the support that enables our customers to trade in markets worldwide.

Our resilient performance throughout the past years of economic crisis has confirmed

our reputation for strength and service, and today we also have a wider geographical presence. Now we are consolidating the progress we have made. This lays the basis for renewed growth in the future.



Dirk Terweduwe
CEO of ONDD Group



Chairman's Statement

He, who wants to be a leader, he must be a bridge.

(Welsh proverb)

After the impact of the crisis in 2009 for the single risk market, everybody was wondering how the insurers would react after the largest amount of losses they have had to pay out since the beginning of the private market in the early seventies.

In a traditional approach, it should have resulted in a contraction of capacities, increased premium rates and increased demand and thus a wider gap between demand and supply. Actually, only one of these factors did take place in 2010: the increase in demand. Capacities did not shrink after the negative loss ratio of 2009. Even more, not a single risk carrier withdrew from the market, except for one in the US for reasons unrelated to the crisis and its consequences. On the contrary, several newcomers, both on the direct and reinsurance side, stepped into the market in 2010, bringing "fresh" capacity to meet the demand. This trend should not be a matter of concern, if demand keeps growing more or less at the same pace. Premium rates did not increase either and are moving back to their very compe-

titive pre-crisis level. Here, there could be a source of great concern in the long run for the insurers caught between increasing reinsurance costs and softening pricing to their clients in a still volatile global environment.

However, a better-structured market with still a tough selection of risks and enhanced expertise are the key elements to offset the possible negative impact of such a quantitative approach. But the crisis taught the market that no one, insurer or insured, may hope to be successful alone. All parties involved in international trade and investment recognize that they are now evolving in a new environment.

New environment from a geographical standpoint:

The crisis is obviously not over: not only does it continue to develop through the critical issue of sovereign debt, but it also appears that the emerging world is organizing step-by-step in parallel to the developed countries with different

concerns and direct business and financial links between themselves. These new trade and financial flows may be a source of competition for European or western players but they also bring new opportunities for those exporters or investors who are ready to share their projects with the local entities. The historical centralized and hegemonic development model is gradually being substituted by a new, more cooperative model. The ones who share the business end up sharing the risks as well, which brings new challenges for private insurers.

New environment from a financial standpoint:

Another key aspect of the continuation of the crisis comes from the lack of consensus and implementation of reforms in the banking sector. The new regulations are complex to define and are criticized by many actors. No one can predict yet whether there will be a contraction of trade finance by the banks with the implementation of Basel III. Many of the bankers openly claim that their capital

will be much better rewarded in investment banking operations than in retail and trade finance. This is doubtless a Damocles sword above the heads of global trade players and may open opportunities for banks in the emerging and developing markets if their western competitors decide to give up part of their activities in this segment.

New environment from a commercial standpoint:

Since 2009, demand in manufactured or equipment goods – and even more in commodities – has been shifting faster from the developed to the emerging and developing countries. There are now numerous questions about a possible mismatch between demand and supply in several fundamental sectors, such as agriculture and food, energy, water.... Such an unstable context is giving rise to increased speculation which itself feeds additional instability. Commodities are calling for a transformation which requires huge industrial investment with a long term horizon, itself calling for political stability and predictability.

New environment from a legal and regulatory standpoint:

In a multi-polar world, laws and regulations largely remain the responsibility of states. But the multiplicity of new bills, decrees and regulations in all fields of human activity, notably security, health protection and the environment makes it more complex for global operators. The ten-

sions resulting from the crisis are also pushing towards the growth of economic patriotism when some countries fear for their economic future. International private and commercial law is progressing much more slowly, thus providing further potential for instability in global trade operations.

New opportunities? New clouds? In any case, new horizons which Garant has integrated into its risk assessment process. What is true for the global environment is true as well for the export credit and political risks insurance market. Of course, 2010 will have been a record profit vintage. Many among the private single risk players will have recovered in 2010 what they lost in 2009. Garant is no exception here!

With 22.3 million Euro gross written premiums, Garant has exceeded its 2010 forecasts by 25% and increased its turnover by 35% over 2009. Garant has taken advantage of increased demand to diversify its portfolio with a mix of direct policies and inward reinsurance, mainly in the single risk segment but also in some turnover business as a means of diversification of its exposures. Supported by its new majority shareholder ONDD, Garant's signature has been more broadly accepted, despite the constraints of the ratings. Though most of the claims recorded in 2009 have been settled in 2010, the excellent cooperation with its policyholders has led to significant recovery agreements, substantially improving the claim ratio.

At the end of the day, Garant

posted a profit of 1.043, its best result since it specialized fully in credit and political risk insurance in 2004. Moreover, with an additional allocation to the equalization reserve of 1.474 million Euro, Garant's capital and surplus is back to 25.2 million Euro against 22.7 million Euro in 2009. This demonstrates that the quality of the portfolio and the right proportion between capital and surplus on one hand and premium volume and exposures on the other hand is a more pertinent criterion of the assessment of the creditworthiness of an insurance company than the size of its capital alone. Larger or smaller in capital and surplus, almost all single risk insurers have gone through the crisis with similar loss and combined ratios.

It shows that the strength of the private market results much more from its risk-sharing ability thanks to a flexible coinsurance approach rather than from large individual capacities, which may bring accumulation issues over time. Reinforcing the mutual understanding between insured, underwriters and reinsurers, with the aim of coming to a common understanding of the risks and coverage is thus of utmost importance to produce the appropriate answer to the new challenges in such a volatile context.

Leadership means the ability to gather several players altogether. In the traditional perception, it was only a matter of financial size: the biggest wanted to be the leader and becoming the biggest was seen as the only way to impose conditions to others. In the new context, it may result much more from expe-

rience, know-how and the ability to share views and approaches with a wide range of possible partners. No one may pretend nowadays to have a universal vision which would enable them to operate under a centralized and uniform model all around the world, simply because there is great diversity within each continent, country or region. It proves to be much more efficient to work together and share risks in a more flexible way, setting up the right connections for each specific context. Europeans risk carriers have a role to play in bringing their expertise to and building up partnerships with local operators in the emerging and developing countries. Being a bridge between its customers and the countries where they operate is the way in which Garant is working to build up its leadership. By doing so, Garant may claim to provide added value when there is a need to co-insure or share risks in the market. Here again, the game is not to dominate, not kill, competition. Underwriters badly need each other to be able to service the clients in the long run. The terms of competition are increasingly based on mutual emulation to provide the policyholder with the highest degree of comfort and reliability when it comes to managing risks. The diversity of experiences and perceptions, linked with the financial constraints of a sound risk portfolio management and creditworthiness, give the guarantee that any coinsurance arrangement will not result in any kind of collusion, shrinking the availability of choice to the insured. On the contrary, the clients – and their brokers – are increasingly interested in gathering together the most

experienced and professional risk carriers on their larger risks in the long run.

Garant is definitely committed to constantly updating and enhancing its knowledge and vision of the trade flows in a large number of countries. For the sake of its portfolio, Garant is also interested in participating in market placements in conjunction with expert underwriters in the different regions of the planet.

Similarly, Garant is involved in market discussions about the insurance regulatory environment, such as Solvency II, about the legal and contractual evolution of policies, about the improvement at the international level of trade good practices, about the efforts of the private market to communicate its rules and practices, about the possible cooperation between export credit agencies and private insurers, where again, thanks to its close links with its main shareholder, Garant as a full market player and ONDD as an ECA, understands the specifics of possible synergies between each type of structure, mainly in the field of crisis management. The 2008/2009 context has indeed shown converging interests between public and private players, which need being better identified and expanded. New opportunities? New clouds? 2011 will most probably be less buoyant than 2010.

The volatility of currencies is, of course, not helping the sound development of the market. Being more fragile because of the sovereign debt issues, the Euro is however still strengthe-

ning against the US dollar, which says a lot about the uncertainties or weaknesses in the developed countries. Such fluctuations may well have a significant impact in the balance sheet of insurers as a result of, among other things, the congruency rule.

Similarly, in asset management policy, caught between the regulatory requirements calling for investments in government paper and their present low attractiveness, linked with the sovereign debt concerns, insurers cannot expect to boost their profits from investment income. This is, no doubt, another reason to focus more efforts on technical profitability. As well as strict selection of risks, sound management of exposures and possible consolidations together with an enlargement of business opportunities seem to be the key drivers to success.

More contacts, more synergies, more risk-sharing, more partnership!

Truly, he, who wants to be a leader, he must be a bridge!



Louis Habib-Deloncle
Chairman of the
Managing Board

Key figures

22,334

Turnover of the year (million Euros)

35%

Premium growth

1,043

Profit of the year (million Euros)

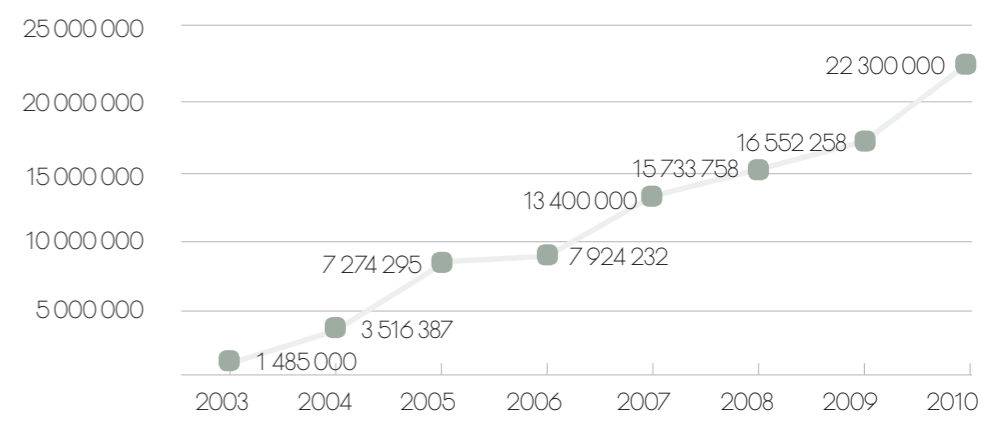
Garant Group Performance

In Million EUR and %

	2010	2009	2008
Gross premium written	22,3	16,5	15,7
Gross loss ratio	30,4%	121,6%	32,9%
Gross operating expenses	17,2%	20,6%	31%
Investment result	2,8%	5,1%	3,3%
Solvency margin	485,7%	496,3%	524%

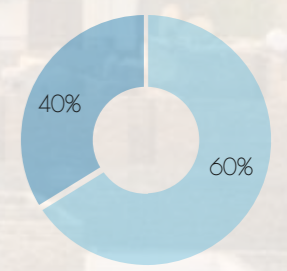
Premium volume growth

In Million EUR



2010 Portfolio structure

- single risk
- turnover



Sound corporate governance enhances Garant's capacity to build value and deploy adequate resources in pursuit of our goals. In May 2010, ONDD has become the majority shareholder with 83% of Garant's equity, alongside the historical shareholder Ingosstrakh. Therefore, adjustments have been made to our corporate governance, notably to the Supervisory Board, to take into account of the new shareholding structure.

A two-tiered governance structure with a Supervisory Board and a Managing Board.

A strict separation of management functions carried out by the Managing Board and the overseeing functions carried out by the Supervisory Board.

The members of the Supervisory Board and the Managing Board adhere to the strictest ethical and professional standards.

Members of the boards

The **Supervisory Board** is composed of 6 members nominated by the Shareholders, the chairmanship being devoted to the majority shareholder.

Dirk TERWEDUWE
Chairman, CEO of ONDD

Frank VANWINGH
Deputy CEO of ONDD

Dominique MEESEN*
Head of Underwriting and Account Management, ONDD

Gert VAN MELKEBEKE*
Head of Business Development and Products, ONDD

Alexander GRIGORIEV
General Director of Ingosstrakh

Tatyana KAYGORODOVA
Deputy General Director, Ingosstrakh

*Mr. Meessen and Mr. Van Melkebeke have been elected during the Ordinary Annual meeting of the Supervisory Board held in May 4, 2011 in Vienna.

The Managing Board and executive management



Louis HABIB-DELONCLE
Chairman of the Managing Board



Walter BLOM
Member of the Managing Board



Dmitri LOKSHIN
Member of the Managing Board



Valérie TALBOT
Chief Risk Officer



Christian TORCHÉ
Head of reinsurance, Swiss market Manager



Brigitta AYASCH
Head of Accounting Department

Our shareholders



BRUSSELS

ONDD The Belgian Export Credit Agency is an autonomous public body whose mission is to promote international economic relations by covering risks related to exports of goods and services, imports, direct investments abroad and short, medium and long-term credits. The insurance primarily covers non-OECD markets.



MOSCOW

INGOSSTRAKH has been operating in the international and domestic insurance market since 1947. A leading company in Russia, Ingosstrakh has branches in 182 Russian cities and over 15 offices and subsidiaries worldwide.

Our companies

GENEVA

GARANT CH

Since 2006, the new Branch based in Switzerland offers the Garant's policies to the Swiss companies.

GENEVA

GLOBAL TRADE SECURITY (GTS)

Created in 2003, the subsidiary GTS provides its expertise in risk assessment and management for commercial and political risk business.

The Garant brand

The vision behind the brand is to meet the world's growing demand for insuring trade and investment exchanges against commercial and political risks in emerging countries. Our company has a unique positioning in the credit insurance market driven by its unique history, a specific risk approach and a strong commitment towards improving market capability to face clients' challenges in a volatile environment.

Built on lasting foundations, with strong roots in Eastern European countries and the CIS risks coverage, Garant has succeeded in establishing itself as a global actor in potentially challenging countries. Today, Garant provides credit and political risk insurance in 160 countries with a focus on emerging markets. Within seven years from the starting point of the redevelopment strategy, Garant's management strength has enabled the company to become active throughout the world and recognized as a major partner in our field of insurance activities.

Inspired by a coherent vision of the future, Garant has succeeded in creating and maintaining a momentum which transcends traditional risk sharing to promote a "risk community". Our company has consistently made this its motto in all actions aimed at expanding the business. It means that we and our clients are involved in ma-

naging risk together. It means also that no insurer can claim to manage all risks by itself. We, the insurers, reinsurers, brokers and corporate clients, are engaged in a vertical separation of responsibilities to ensure the best risk management and mitigation.

Garant's reputation in the credit and single risk market is strongly backed by the added value of our main shareholder ONDD and the values expressed in our market practices. Our senior management has more than 15 years track record in export credit insurance and means that Garant ranks among the top continental operators in term of knowledge and know-how and practices in relation to legal and regulatory issues.

Our brand expertise

Strong international culture

Respect for people's integrity and culture

Multicultural teams in Vienna and Geneva offices

Global network through international agreements and local contacts, through shareholder synergies

Strong service capability

Capability to assess and select underlying risks

Capability to deliver tailor-made insurance solutions

Capability to adapt to the global environment

Value of long lasting relationship

Create long-term relationships by adding value to our clients' businesses

Develop genuine partnership to share the economic benefits equally

Accountability and fairness



The Garant business model

Garant has a client-focused business model that delivers a high level of reliability and financial stability, whatever the economic and financial environment. Our customer base, made up of large multinationals, trading and banking groups, specialized exporters in a specific sector or geographical region, as well as local insurers in the emerging markets, has expanded significantly in recent years.

We offer a wide range of trade insurance products to provide the best solutions that fit each client's needs precisely. Our dedication to sophisticated insurance solutions and non-standard export coverage fosters the most durable customer relationships and create the greatest value. We demonstrate strong capability in understanding our client's strategy and the provision of support in their countries of operation.

Garant's business model, which generates premium growth over the years, promotes a fresh and flexible approach to reduce vulnerability to the external environment. Our approach to risks gives strong recognition to the human element, which introduces an additional level of complexity into the risk process. Our experience shows that there can be reasonable

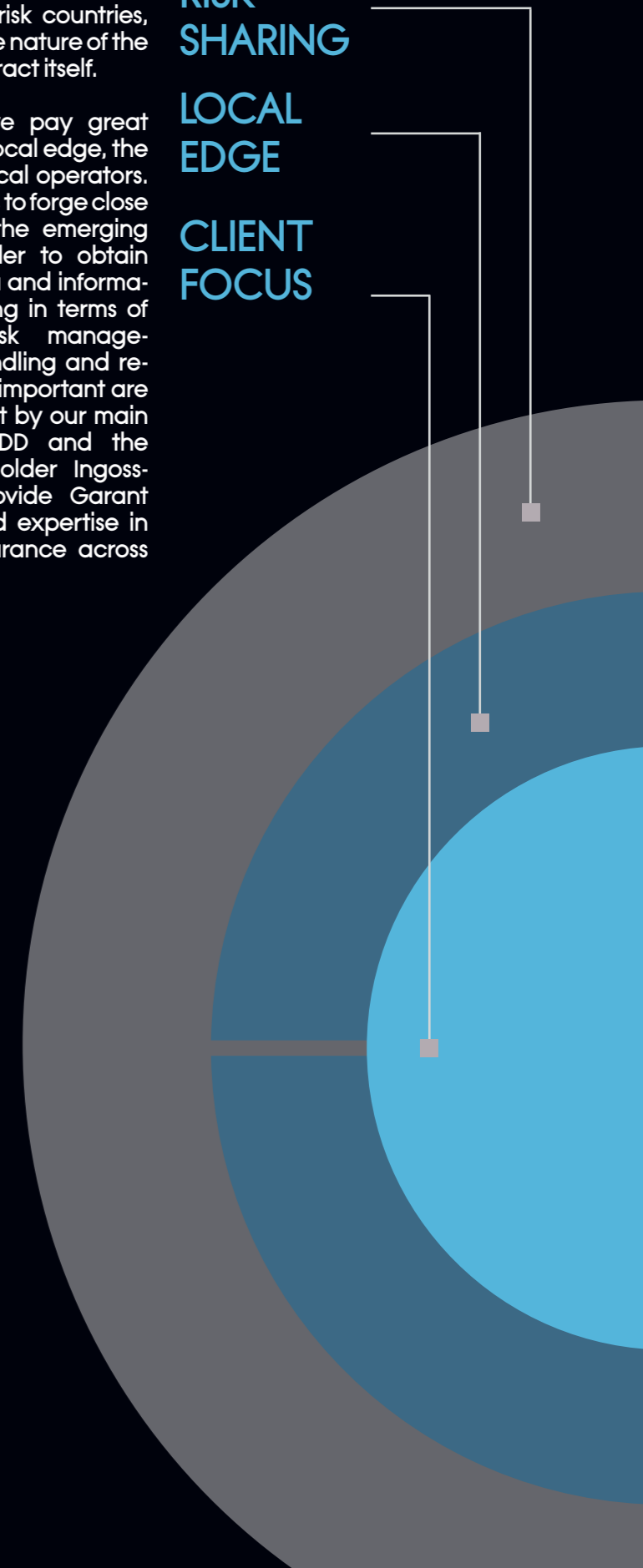
risks in high-risk countries or high risks in low-risk countries, depending on the nature of the commercial contract itself.

Consequently, we pay great attention to the local edge, the insider view of local operators. It is essential for us to forge close partnerships in the emerging countries, in order to obtain high quality data and information and reporting in terms of underwriting, risk management, claims handling and recoveries. Equally important are the networks built by our main shareholder ONDD and the historical shareholder Ingosstrakh which provide Garant with unparalleled expertise in trade credit insurance across the globe.

RISK SHARING

LOCAL EDGE

CLIENT FOCUS





CREDIT RISKS PRODUCTS

Commercial Risk Coverage

- Insolvency
- Protracted Default (at least 180 days waiting)

POLITICAL RISKS PRODUCTS

Imports Risks

- Imports risks
- Non delivery of pre-financed goods and non reimbursement of advance payment;
- The confiscation of products belonging to the insured in countries of risk or in transit;
- The cancellation or non-respect of a contract by a government debtor;
- The cancellation or non-respect of a contract by a private sector debtor in the wake of government decisions or wars;
- Non-honouring of arbitration awards.

■ Exports risks

- The contract repudiation by a public debtor;
- Contract Frustration due to act or decision emanating from a public authority;
- Withdrawal of export approval and licenses;
- Inconvertibility and/or non transfer;
- The non-repatriation of goods;
- The confiscation or embargo of goods;
- Non honouring of arbitration awards;
- Change of law and/or regulations.

■ Investment risks

- The confiscation, expropriation, nationalisation, requisition or destruction of the company's assets;
- Non-repossession of assets by the insured company following government restriction measures,
- privatisation or halting operations; forced abandonment;
- Non- honouring of arbitration awards;
- Non-repatriation of dividends.

■ Unfair calling bonds

- Unfair calling of bonds by the government beneficiary;
- Non-honouring of arbitration awards.



Political risks on the rise

The depth and breadth of the financial crisis remind us how crucial the credit insurance industry is to businesses, to international trade and to entire economies. In the course of 2010, the global recognition of this, added to higher political risk awareness, led to increased demand for the trade insurance products.

In 2010, Garant reports a 35% premium growth, allowing it to absorb the losses recorded at the end of 2009 and to reach a positive financial result at the end of the year. This good result reflects our ability to capitalize on effective risk management and seize good deals in an ever more demanding global economic and political environment.

New economic and political scenario

In 2010, the shape of the recovery, a V, W, U even L, is still in debate. The global economy shows signs of recovery led by emerging countries. A few developed countries, such as US,

Germany and Switzerland are restoring output growth after having been in recession, while most of European economies are still caught up in serious difficulties resulting from the crisis, including sovereign debt, unemployment, contraction of purchasing power in the domestic markets and low economic growth expectations. Emerging countries continue to post rapid growth rates, driven by international trade, capital inflows, higher oil prices and the strength of their domestic demand. These differences led to a two-speed recovery with a faster pace of growth in emerging countries than in developed countries.

In response, the international community stresses the need for global financial reform but, despite some progress, is unable to bring structural answers to reduce major imbalances between the virtual activity of the financial markets and the needs of the real economy. The year 2010 also proves that recovery will be uncertain and may be subject to possible setback.

Heightened by the economic crisis, political risks are on the rise in emerging countries as well as in developed countries.

In 2010, the level of political risk is increasing in more countries than it is declining, impelling businesses, as well as insurers, to pay close attention to the underlying risks in each and every country. The Jasmine Revolution began in Tunisia at the

end of December and has overwhelmed all economic and political analysts by its speed and its domino effect, although the demographic pressure associated with stringent economic constraints would suggest an explosive situation in the medium or long-term. In a rapidly evolving global economy, risks become more complicated, and emerging economies face a new set of challenges.

All this has altered the risk perception of global players, resulting in a higher demand for risk coverage. The scarcity of financing solutions proposed by banks or financial markets also led to increased demand both from exporters and banks.

On the supply side, the credit insurance market, public and private, responds well, striving to maintain its risk appetite despite the greater severity and frequency of claims arising from the credit crunch. Although criticisms emerged during the crisis against the withdrawal of credit limits by the insurers, the short-term segment again experiences strong competition from the third quarter of 2010.

In the single risk market, no providers and no reinsurers withdraw from the line, even though the London market announces claims figures between 1.5 and 3.5 billion USD. The single risk market undoubtedly improves its credentials with its clientele thanks to the excellent response provided by the insurers in their handling of claims. Es-

No change in strategic direction, just adaptation to the new environment

established insurers continue to expand their businesses while investors show a renewed interest by raising capital in new capacities structures. In early 2010, new entrants into the industry, primarily emanating from the Bermudan market, demonstrate the vitality of the market.

In 2010, Garant emerges strongly from the worst financial crisis the market has ever experienced. Taking advantage of the positive trend in demand for coverage, our company posted profits of 1.043 million Euro. The technical result, before the equalization reserve, amounts to 1.628 million Euro, which represents the best result for the company since 1994. With a gross combined ratio of 72.5%, Garant ranks among the best performing insurers in the market.

2010 is a year of consolidation with a very good portfolio performance. Turnover increases by 35% reaching 22.3 million Euro. In the year, trends in loss ratio return to market standards and loss recoveries from 2009 make good progress.

Garant manages to be profitable even in the most difficult

scenario as the global crisis is recognized by the high losses covered by the industry. The 35% portfolio growth not only compensates the 2009 loss caused by the higher frequency and severity of claims, but also achieves higher margins.

It is testimony to the strength and reliability of the company that its performance is significantly ahead of 2009 in a still-challenging environment.

Over the years, Garant builds a very good track record attracting a growing numbers of clients keen to buy consistent trade products insurance. In conjunction with this, the ONDD's acquisition of the majority interest in Garant's equity, announced in May 2010, has certainly helped to acquire a new clientele, previously constrained by rating issues.

It is further evidence that the development efforts focused on emerging countries and single risk activities implemented by the Management Board since 1993 are the right strategy to deliver growth at all stages of the economic cycle.

Drawing the lessons from the crisis, notably on the claims side,

the management of Garant undertakes initiatives, internally to adapt our insurance coverage in order to capture new types of risks and the new risk landscape, and externally to contribute to structuring single risk insurance activities as a market more effectively.

As the legal international environment has become a matter of concern in the wake of the effects of the crisis, the underwriting department, in close cooperation with the legal department, revamps its wordings and policy conditions with a focus on efficiency and client satisfaction. Expert assessment of credit and political risks is more strategic than ever before. Our risk assessment approach, combining quantitative criteria and human hindsight and foresight, remains a valuable asset thanks to the knowledge and the experience of our senior underwriters.

Garant continues to target priority deals in emerging markets where demand is growing and where we have strong expertise, enabling us to assume a lead role in supporting our clients' business developments.



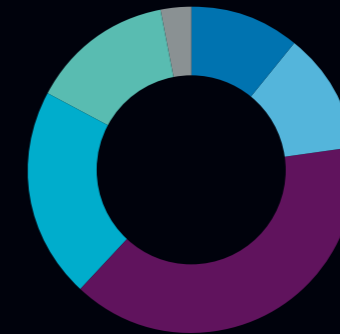
Activity report

Growing together, growing stronger

Analysing our risk portfolio in greater detail, it continues to show high quality with greater diversification of business sources.

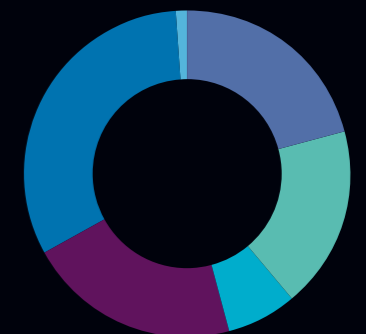
In 2010, single risk still represents 60% of the whole portfolio. Demand is mainly driven by commodities markets, which are looking for greater capacities, boosted by the growing needs for energy, metals and soft commodities from the emerging countries. In this segment, the gross premium increases by 19.6% compared to the previous year and the net premium figures reflects even stronger growth at 44.5% over the last year. Turnover grows even faster, recording 51% growth as a result of the snowball effect of the product and the impact of exchange rates, most of the deals being written in dollars. Inward reinsurance increases faster than the direct business to represent 35.6% of the gross premiums written in 2010, boosted by participation into two new treaties. The Swiss activities branch also shows a significant increase of 43% in gross premiums compared to last year. On the facultative side, the trend is upward, partly driven by new business in Russia with the new INGO-ONDD joint venture. Overall, Garant see

2010 Aggregate exposure by type of Country category



- Category 1 (highest)
- Category 2 (good)
- Category 3 (adequate)
- Category 4 (questionable)
- Category 5 (poor)
- Category 6 (lowest)

2010 Aggregate exposure by tenor



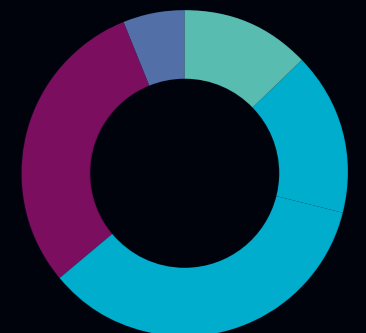
- up to 12 months
- 13 to 18 months
- 19 to 24 months
- 25 to 36 months
- 37 to 60 months
- 61 months & above

2010 Aggregate exposure by risk limit range



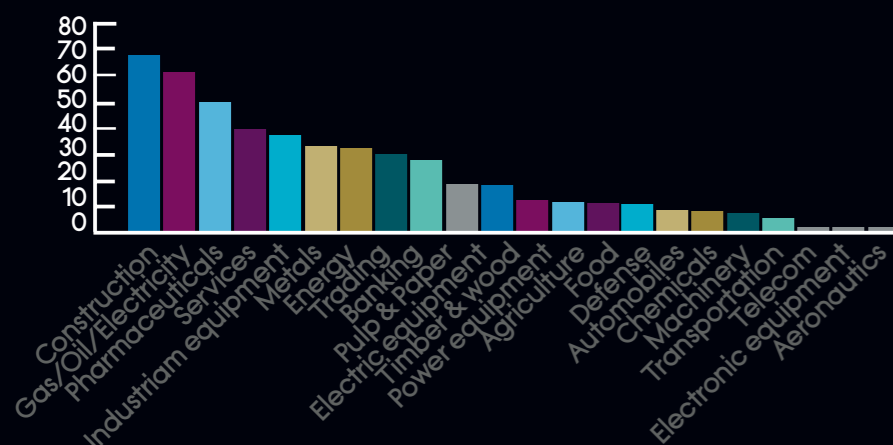
- up to 2mEUR
- >2mEUR, up to 5mEUR
- >5mEUR, up to 10mEUR
- >10mEUR, up to 15mEUR
- >15mEUR, up to 20mEUR

2010 Aggregate exposure by type of business



- Single Risk Export
- Single Risk CEND
- Single Risk Import
- Turnover

2010 Aggregate exposure by economic sector of Debtor



business improvement in all its business segments. Diversification of business segments contributes to a healthy income and well-balanced risk portfolio.

In addition, Garant demonstrates a very good performance in maintaining strict control of costs, managing to reduce the operating cost ratio again to 17.2% of the gross premium against 20.6% in 2009. It is significant that Garant has been able to grow its book of premiums by 35% without incurring any additional operating costs over the previous year, despite adverse conditions, such as currency fluctuations between Euro and CHF, new software developments or the volume of claims files to be handled as a result of the crisis.

This gain in productivity is attributable to the professionalism of our team members, whose experience acquired year-by-year is an important foundation for the stability of the company. The Management takes this

opportunity to offer its warmest thanks to them for all their hard work in the interests of our company and our clients.

On the claim management side, the loss declared in 2009 did not deteriorate and no major claim is reported during the underwriting year 2010. After a negative result in 2009, the gross claims ratio in direct business decreases to 22.3% against 56.7% the previous year. Garant is gratified by the strong cooperation with its policyholders during this exceptional period of unmatched losses. Recoveries on paid losses or mitigation on pending files reduce the total amount of the losses of 2009.

On the reinsurance side, the industry recovers faster than expected from losses recorded in 2009, showing an appetite for our class of business. Garant maintains strong relationships with reinsurers participating to our treaty quota-share and XL programmes. As far as retention is concerned, the decision

of management to add to the priority of EUR 1.35 million at the gross self-retention, four XL layers on top of XL cover with a total capacity of EUR 7.8 million, reflects the objective of protecting the good profitability of Garant's portfolio. The company is also able to expand its reinsurance coverage through an aggregate XL contract and a Country XL contract.

Added to this, Garant reinforces its capital protection. The net capital and surplus amounts to 25.130 million Euro, back to a positive balance over paid up capital.

In a volatile financial environment, Garant maintains a long-term conservative strategy in asset management. As an element of its creditworthiness, the company has opted for safe investments in tangible assets. At the end of 2010, the investment income, net of investment charges, reaches almost 1 million Euro, representing a 15 % improvement over 2009, which is quite a satisfying result at a time when governments bonds are volatile and instability prevails in the financial markets. Part of the result is the result of the deferred effect of time deposits negotiated before the crisis and will not continue in 2011, but the new spread of assets with the purchase of some corporate bonds represents a positive diversification of the investment portfolio.

As a consequence of the conservative investment policy, the price, default, liquidity and cash-flow risks are rather low. We minimize the liquidity and cash-flow risks by means of liquidity planning and the permanent monitoring of payment flows. We do not expect

a negative impact on liquidity because of the growth of the insurance portfolio and the nature of reinsurance contracts. Investments are constantly made in coordination with cash management, ensuring a safe level of solvent funds.

As Garant earns 56% of its premiums in foreign currencies, the currency risk management is of high importance to the company. We minimize the risk by reaching full congruence in assets and liabilities.

During the year 2010, the management implements a set of measures to adjust our reporting rules to the new requirements of the major shareholder ONDD and mobilize internal resources on the future Solvency II requirements in order to act in good time. The company also launches improvements to our risk management systems and processes, taking into account the particular features of our risk environment. Process quality and data analysis will be optimized in relation to reporting processing. Thanks to the size of our structure, we consistently demonstrate rapid adaptation and reaction within our organization to meet any challenge.

In short, the new environment could be very negative for those corporations that operate through inertia and are not capable of understanding the changes and adapting.

The Garant management has developed an innovative policy to match the new competitive environment looming after the crisis.

In tune with our clients' needs, at the end of 2010 Garant increases its risk appetite to

In tune with clients' challenges

match the growing needs for credit and political risk coverage for transactions and investments in emerging countries. From 2011, Garant offers coverage up to 20 million Euro per risk unit and 40 million per business partnership in single risk business. The capacity per debtor is maintained at 20 million Euro at any time. The capacity per private obligor is increased to 35 million Euro at any time.

Moreover, with the Garant's Business Seminar launched this year, the company seeks to provide a new space for all market players, corporate, brokers, reinsurers and lawyers to discuss key issues on credit and political risk insurance in order to further knowledge on this specific field of insurance activities and share their ideas on the future of the market.

The economic balance of power has shifted. South-South trade and investment flows grow quickly, beyond the control of developed countries, forcing them to adapt to a new competitive environment. Moreover, the Arab revolutions which began at the end of 2010 are changing the global

political order, which has been seeking a new format since the end of the cold war and the collapse of the two blocs.

This new political map means that credit and political risks insurers have to reevaluate their prism of risk assessment, a part of the risk modelling which is at the heart of Garant's strategy. With a proven business model, a strong and well-known shareholder and significant growth of our activities in 2010, Garant managed to come to terms with the crisis over the year. We can be reasonably optimistic for our future prospects.

A voice in the industry



The regional balance of powers: Iran, Pakistan, Afghanistan and Arab World by Bernard Hourcade, geopolitician



Reinsurance market trends in the wake of the global financial crisis by Mark Jenkins, Executive Director, Willis Re

Demonstrating industry best practices, Garant strives to address the global challenges which our clients face by launching initiatives which contribute fresh and innovative thinking on the credit and political risk insurance market and its direction.

As well as delivering keynotes at industry events in all regions of the globe, the Garant Business Seminar embodies our commitment to this principle. On 3 June, Garant held its first Business Seminar to serve as a platform to

discuss the future development of the industry and address the challenges and opportunities of a changing risk landscape. Forward-thinking speakers, brokers, reinsurers, lawyers and customers participated in the seminar, sharing their analyses and new ideas, thus helping to improve the process of risk underwriting and risk management.

The credit insurance industry will experience significant regulatory changes in the coming years at the global and regional levels. The most significant concerns the European insurance industry, with the Solvency II process due to come into force as planned on 1 January 2013.

As a Chairman of the Single Risk committee at ICISA, the Chairman of Garant Louis Habib-De-

loncle emphasizes the need for the Single Risk market to position itself much more powerfully. The private market providers need to improve their structure and communicate as a market with their clients, reinsurers, regulators, rating agencies and other business partners. Under the authority of Louis Habib-Deloncle, the Credit Insurance working party of the Association internationale de Droit des Assurances (AIDA), whose objectives are to appraise market practices in relation to legal issues, may play a role in promoting a higher level of discipline in the marketplace.



Global risk exposure

North America

- Canada
- USA

1%

Latin America

- Argentina
- Bahamas
- Brazil
- Chile
- Colombia
- Cuba
- Ecuador
- El Salvador
- Guatemala
- Mexico
- Panama
- Peru
- Venezuela

21%

Europe

- Albania
- Austria
- Bosnia & Herzegovina
- Cyprus
- Croatia
- Czech Republic
- Estonia
- France
- Hungary
- Italy
- Macedonia
- Netherlands
- Norway
- Poland
- Romania
- Serbia
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom

21%

Middle East

- Egypt
- Iran
- Israel
- Kuwait
- Lebanon
- Oman
- Qatar
- Syria
- Tunisia
- Turkey
- United Arab Emirates

17%

Africa

- Algeria
- Angola
- Cameroon
- Gabon
- Gambia
- Ivory Coast
- Kenya
- Libya
- Morocco
- Mauritania
- Nigeria
- Sierra Leone
- South Africa
- Sudan
- Tunisa

11%

Russia & the CIS

- Armenia
- Azerbaijan
- Belarus
- Estonia
- Georgia
- Kazakhstan
- Kyrgyzstan
- Latvia
- Lithuania
- Moldova
- Russian Federation
- Tajikistan
- Ukraine
- Uzbekistan

20%

9%

Asia

- China
- Hong Kong
- India
- Indonesia
- Japan
- Malaysia
- New Caledonia
- Philippines
- Singapore
- Taiwan
- Thailand



Risk management report

During the 2008-2009 financial crisis, the risk driver that had the greatest influence was the higher frequency of claims in Garant's portfolio. Our company has fared well considering the magnitude of the economic collapse, recognized as the being the largest occurrence of losses borne by the private export credit insurance market since its establishment. The good profitability of Garant's portfolio in the year 2010 demonstrates the quality and reliability of our business model. This reflects our ability to manage and profit from risk underwriting, to monitor exposures and control risk accumulation.

Corporate principles of risk management

Managing opportunities and risks is an integral part of the corporate governance in place throughout Garant, not the task of one particular organizational unit. The managing Board is responsible for establishing and monitoring Garant's risk appetite and its tolerance to risk. Senior management is responsible for achieving the desired risk profile as well as managing risks on a day-to-day basis. Garant has the right organization to ensure efficient and effective risk management. Clearly, the risks we describe in the following are counterbalanced by the opportunities that could result from constructive risk management.

Operational risk management

Strategic Risk

In the wake of the global crisis, global players have evaluated the strategic role of credit and political risk insurance to support the growth in their activities worldwide. International demand is likely to lead to a sharp increase in credit and political risk coverage as economic and political risks are driven by global instability. Therefore, we consider the outlook for the industry positive as a result of market reliability in a

challenging environment. Our company is pursuing its goal of becoming a continental market leader and organizing its strengths to achieve this goal. Portfolio growth in a depressed environment bolsters confidence in the management's strategy and scenarios, which apply industry best practices to risk assessment and other key decision-making process.

It is clear that the financial crisis and its effects will continue to reshape the credit and political risk insurance market and affect the regulatory environment. Within a strategy which has proved its consistency, we deploy a full range of technical, legal and financial instruments to compete globally and face successfully the ever-changing future, as we integrate the "new norm and world" in trade and investment coverage into all our business processes of underwriting, risk transfer, claims and recoveries management, legal expertise, asset allocation...

Marketing risk

Since the beginning of 2010, we have noted a significant increase in demand for trade credit and political risk insurance as a consequence of the financial meltdown which has re-ignited a strong interest for these products. Demand has been mainly driven by commodities markets showing good performance in most sectors. Garant has been able to take advantage of this trend and capture new clients.

Risk management report

The products have attracted a new class of applicants using export credit insurance as an alternative to the tightening of global liquidity conditions. In this respect, we judge that the Basel III equity requirements with the adoption of tighter credit conditions may lead to a mixed result as regards our business activities: some companies could turn to export credit insurance while risk appetite for trade financing could be adversely affected, with a negative effect on trade flows.

Underwriting Risk

In our insurance segment, underwriting risk has very much to do with recovery potential. One of the most important sources of commercial and political risk underwriting is determining whether the basis for securities and potential recovery is adequate. It will alleviate the underwriting risk as future incurred net losses will not impair the premium paid.

In an unpredictable business environment, Garant applies stricter and more selective underwriting standards to preserve portfolio soundness. We continue to focus on priority trade deals, as they provide greater security in the emerging countries, where the potential negative effects of the crisis are less in comparison with the developed countries. The quality of the Insured remains a key criterion in a client-driven market, as is risk-sharing with other risk carriers.

In the light of the crisis, we have seen shifts in the nature of risks, such as bank defaults and more fraudulent operations in

the market. To counteract such risk, we initiated a full review of our policy wordings and their improvement, in full cooperation with the legal department. In a rapidly changing environment, we put special effort into full-time market intelligence and comprehensive tracking of external resources to ensure that all potential risks are identified in a timely manner.

Reinsurance Risk

In 2010, the industry has recovered faster than expected from losses recorded in 2009, encouraging new capacities to enter the market in 2011. Nevertheless, the volatility and the concentration of the reinsurance market remain major concerns. Even if we have seen a positive sign with entry of new capacities in the market, we still take very seriously the risk of capacity tightening, as a result of the excessive concentration of the reinsurance market, notably in the credit branch. We do not discount the risk that the decision of a leading reinsurer to withdraw from a treaty may generate a domino effect.

Garant actively monitors the reinsurance market in the course of the post-crisis period. Despite the significant impact of natural catastrophe losses in 2010, the financial strength of the reinsurance companies remains at appropriate levels to support their insurance activities. Indeed, the reinsurance companies, part of our cession programmes, are rated at least with an A, having a dedicated team to our lines of business.

Garant strives to ensure that global market factors do not

impact the confidence of our reinsurers by keeping them constantly informed on our underwriting methods and risks, data transparency, the capacity we require and our experience in managing risks.

Claims management Risk

In 2010, the claims department reported a drop in claims declarations back to the market standard. Recoveries from losses incurred in 2008-2009 are making good progress. In this respect, we value the strong cooperation between policyholders and the underwriters to mitigate loss risk before the payment of indemnity and, when a claim arises, between all parties involved in the claim recovery process. Garant commits itself to a variety of mechanisms in order to establish prudent control over the claims management process.

In the light of the crisis, the legal department has started the revision of the internal policy wording, first implementing the effectiveness of the recovery clauses such as the due diligence, subrogation and litigation clauses, in response to the recent developments in the jurisprudence, legislation and regulations that govern the policies.

Legal risks may increase following the increase in claims, at this may generate conflicts of interpretation and interests. Garant is fully aware of these risks and mitigates them by lobbying industry representatives and legal associations to achieve a codification of rules and practices for greater clarification. Garant chairs the wor-

king party dedicated to credit insurance in the Association Internationale du Droit de l'Assurance (AIDA).

Human capital Risk

Garant continues to promote the acquisition of new talents and the sustainability of teams to lessen the human capital risk.

Reputational Risk

Garant constantly works on building a strong reputation in the market. Our reaction during the crisis both on the claims handling side as well as our underwriting policy based on continuity, together with the majority takeover by ONDD in May 2010, have all increased Garant's reputation of credibility among its clients.

In a rapidly evolving global environment, Garant considers the investment in know-how and expertise as crucial to enhance its professional image.

IT Risk

Having a high level of security awareness, the management has pursued the continuous improvement of Garant's IT system - modernization of hardware on one hand, implementation of new technologies and development of new software on the other hand - in order to achieve greater coordination between all departments and further integration of the whole business process.

Financial Risk

Garant maintains a very conservative investment strategy with the aim of carrying minimal risks on its assets, rather than looking for higher investment income with a higher degree of risk and volatility. Over the course of the expanded financial crisis, we have been considering our risk management and supervision of financial issues, such as liquidity, interest rate and currency risks. The permanent review of our investment practices has been intensified to react promptly and take appropriate initiatives when required.

Interest rate risk

To hedge the risks of changes in their value, we hold fixed-income securities until their maturity and, when purchasing them, adjusting their duration to the market situation and liquidity needs.

In 2010, the fall in interest rates has negatively impacted our financial performance. In the context of the sovereign debt crisis in Europe, Garant has diversified its investment portfolio and started to add to time deposits and new placements in corporate bonds, in addition to the mandatory sovereign paper for our legal provisions. In this context, we also prefer relatively short tenors in our placements.

Liquidity risk

Risks from market volatility are identified and hedged in a timely manner by means of weekly updating of our liquidity planning and investments in comprehensive liquid funds. No risk from liquidity has been reported.

Currency risk

The Euro depreciation compared to the dollar has positively impacted our financial accounts, in comparison to prior year. On the other hand, the Euro depreciation has had a negative impact on the costs of the Swiss branch. We strive to achieve full congruence in assets and liabilities to minimize currency risk.

Balance Sheet as of December 31, 2010

ASSETS	31.12.2010 EUR	31.12.2009 TEUR
A. Intangible assets		
Other intangible assets	78,810.63	227
B. Investments		
I. Assets in affiliated companies and participating interests	32,647.73	33
II. Other financial investments		
1. Shares and other non fixed income securities	1,223,988.89	1,272
2. Debt securities and other fixed income securities	21,279,911.03	9,278
3. Deposits with credit institutions	11,215,680.58	23,565
C. Receivables		
I. Receivables from direct insurance business		
1. policyholders	3,893,563.54	3,452
2. intermediaries	9,960.71	11
3. insurance companies	3,091.90	0
II. Receivables from reinsurance business	5,485,361.67	3,905
III. Other debtors	257,094.15	275
D. Accrued interest	495,011.93	413
E. Other assets		
I. Tangible assets (except land and buildings)	129,415.18	105
II. Cash at credit institutions and cash in hand	3,157,555.59	4,978
III. Other	233,228.32	26
F. Prepaid expenses	67,773.64	71
	47,563,095.49	47,611

Balance Sheet as of December 31, 2010

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.2010 EUR	31.12.2009 TEUR
A. Shareholders' equity		
I. Share capital		
Nominal amount	25,000,248.00	25,000
II. Risk reserve pursuant § 73 a VAG, taxed share	3,858.56	0
III. Net retained loss	-2,583,289.39	-3,433
thereof loss brought forward:		
EUR 3,627,281.72		
B. Technical provisions, net of reinsurance		
I. Provision for claims outstanding		
1. Gross	21,320,040.54	28,057
2. Reinsurers' share	-13,202,398.39	-17,920
II. Provision for profit-unrelated premium refunds		
1. Gross	645,055.66	494
2. Reinsurers' share	-481,269.99	-424
III. Equalization provision	2,709,000.00	1,235
IV. Other technical provisions		
1. Gross	104,100.00	97
2. Reinsurers' share	162,840.00	-37
C. Non-technical provisions		
I. Provisions for post-employment benefits	241,395.00	225
II. Provisions for pensions	1,561,329.00	1,572
III. Provisions for taxation	97,606.53	8
IV. Other provisions	450,382.14	243
D. Deposits from ceded reinsurance business	9,402,860.34	8,348
E. Other liabilities		
I. Liabilities arising from direct insurance business		
1. Policyholders	12,658.49	5
2. Intermediaries	669,769.77	686
3. Insurance companies	6,260.78	11
II. Liabilities from reinsurance business	1,245,368.45	3,237
III. Other liabilities	197,280.00	207
	47,563,095.49	47,611

Profit and Loss Account for the Fiscal Year 2010

TECHNICAL ACCOUNT	31.12.2010 EUR	31.12.2009 TEUR		
1. Earned premiums				
a) Premiums written				
aa) Gross	22,334,271.30	16,523		
ab) Reinsurers's share	-11,356,678.69	10,977,592.61	-8,996	7,527
b) Change in the provision for unearned premiums				
ba) Gross	-6,700.00		-97	
bb) Reinsurers's share	82,036.04	75,336.04	219	122
2. Claims incurred				
a) Claims paid				
aa) Gross	-14,398,229.84		-7,495	
ab) Reinsurers's share	8,188,964.25	-6,209,265.59	4,319	-3,176
b) Change in the provision for claims outstanding				
ba) Gross	7,676,056.35		-12,550	
bb) Reinsurers's share	-5,460,941.14	2,215,115.21	9,159	-3,391
3. Expenses for profit-unrelated premium refunds				
a) Gross	-587,076.47		-439	
b) Reinsurers's share	422,833.61	-164,242.86	395	-44
4. Operating expenses				
a) Insurance acquisition cost	-4,661,836.20		-3,654	
b) Other operating expenses	-2,634,547.30		-2,370	
c) Reinsurance commissions & bonuses from reinsurance covers	2,282,752.72	-5,013,630.78	1,523	-4,501
5. Other technical charges			-252,072.35	-324
6. Change in the equalization provision			-1,474,000.00	1,537
7. Technical account balance	154,832.28		-2,250	

Profit and Loss Account for the Fiscal Year 2010

NON-TECHNICAL ACCOUNT	31.12.2010 EUR	31.12.2009 TEUR		
1. Technical account balance	154,832.28			-2,250
2. Investment income and investment return				
a) Income from other investments	809,485.80			954
b) Gains from disposal of investments	3,011.89			232
c) Other investment income & investment return	277,740.97	1,090,238.66	19	1,205
3. Expenses for investments and interest expenses				
a) Asset management charges	-45,042.97			-35
b) Write-offs on investments	-156,570.02			-67
c) Interest expenses	-7,515.50			-9
d) Losses from disposal of investments	-8,692.90			-34
e) Other investment expenses	-255,903.97	-473,725.36	-225	-370
4. Other non-technical income	1,435,019.96			138
5. Other non-technical charges	-1,065,896.25			-116
6. Profit or loss on ordinary activities	1,140,469.29			-1,393
7. Taxes on income	-92,618.40			21
8. Profit or loss for the financial year	1,047,850.89			-1,372
9. Transfer to Reserves	0.00			4
10. Transfer to the Risk Reserve pursuant § 73a VAG	-3,858.56			0
11. Annual Profit/Loss	1,043,992.33			-1,368
12. Loss brought forward	-3,627,281.72			-2,065
13. Net retained loss	-2,583,289.39			-3,433