Annual Financial Statements

2021

HDI Global Specialty SE

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Management Report

Foundations of the Group

HDI Global Specialty SE ("HGS", "the Company") is a company of the Talanx Group, pooling global activities in the field of specialty insurance. In this sector, it offers its customers tailored solutions for the agency and specialty insurance business.

With effect from 31 December 2021 Hannover Rück SE transferred its share in HGS amounting to 49.8% to HDI Specialty Holding GmbH ("HGSH"). Thus, HGSH with HDI Global SE being its sole shareholder holds 100% of the shares in HGS.

The Company has its headquarters in Hannover, Germany.

HGS writes business mainly through brokers and managing general agencies. In line with its strategy, the Company cedes large portions of the insurance business within the Talanx Group. The Company is licensed by the German Federal Financial Supervisory Authority ("BaFin") to conduct business in all lines of property/casualty insurance as well as reinsurance in Germany and by way of freedom to provide services within the European Union. Moreover, HGS writes insurance business through its foreign branches both within and outside the European Union. As a company registered with the National Association of Insurers Commissioners (NAIC), the Company operates as an excess and surplus lines provider in the US market.

In the past financial year, we consistently expanded our business in line with our strategy and continued to focus on sustained profitable growth and long-term value enhancement. Our focus is on being the best option for our business partners when choosing an insurance partner. This means striving for long-term business relationships and, concurrently, taking a firm stance if business does not sustainably meet our expectations. Overall, our main focus is on our customers and their concerns.

With a newly created employer company, i.e. HDI AG, Hannover, the Talanx Primary Insurance Group will simplify its operational structures in Germany in spring 2022. As of 1 March 2022, the company's employees will be transferred to HDI AG by way of a transfer of operations.

General economic and industry-related conditions

Macroeconomic development

At the beginning of 2021, the global economy was initially still under the influence of new coronavirus infection waves and the accompanying restrictions on public life. Only as the unprecedented vaccination campaign progressed, especially in the developed economies, did the economic recovery pick up speed again in the spring. After the global economic output first recorded its second decline over the past 40 years in 2020, it reached its strongest increase in 2021 with a projected 5.9% year-on-year rise in that period.

In Germany, this development was reflected by a strong increase in exports, which were able to compensate for their decline in the previous year. While the government expanded its consumer spending again to support the recovery, private households exercised restraint in view of price increases due to rising commodity prices and supply chain disruptions. The latter also caused problems for the industry the output of which in November was still about 3% below the pre-crisis level. Overall, the +2.7% growth of the German economic output based on the GDP compared to the previous year clearly remained behind that of the eurozone (expected +5.1%). The large euro countries France (expected +6.7%) and Italy (expected +6.3%) clearly outperformed the domestic development; however, those economies had recorded more significant losses in the previous year. The strongest growth in the eurozone since its inception was supported by extensive fiscal measures and an unchanged ultra-expansive monetary policy of the ECB.

In the USA, the administration of the new President Biden supported the post-COVID recovery with further fiscal packages, although the total volume of about USD 1,800 billion was significantly lower than that in the previous year (USD 3,800 billion). In combination with unemployment benefits until autumn as well as high savings, they provided a boost to private consumption, i.e. the main driver of growth in the US economy. Investments also grew strongly against the backdrop of recovering demand and the persistently low interest rate environment. With an expected growth of 5.6% compared to the previous year (2020: -3.4%), the US gross domestic product of 2021 already exceeded its pre-crisis level again.

The growth dynamic in the industrialised countries was surpassed by that in the emerging and developing countries, which for their part saw a record growth in 2021 within the last ten years. However, the picture is differentiated in this respect: Asia had to admit defeat to Latin America after the slump of the economic output had been about twice as high in the first year of the pandemic. In China, which was one of the few large economic areas recording a positive economic growth even in 2020, the gross domestic product rose by 8.1% in 2021 compared to the previous year and hence more strongly than in any other year since 2011.

Whereas the coronavirus-induced collapse in demand in 2020 caused prices to fall significantly worldwide, inflation rates increased last year. The inflation rate reached its peak in the USA at 7.0% (highest value since 1982) and in the eurozone at 5.0% (highest value since the beginning of monetary union). The annual average inflation rate rose from 1.2% to 4.7%, and from 0.3% to 2.6%, respectively. In the course of the economic recovery, rising commodity prices and disruptions in global supply chains were the main drivers of inflation.

Under this impression, numerous central banks around the globe initiated a turn towards a more restrictive monetary policy. Though the US Federal Reserve refrained from raising its key interest rate in 2021, which had been lowered to 0.00 – 0.25% during the pandemic, it began reducing its monthly bond purchases in autumn. Also the ECB left its deposit rate at -0.50%. In contrast to the Fed, however, the monetary guardians in the eurozone have only announced a reduction in the pace of their bond purchases so far but have not yet implemented it.

Capital markets

In 2021, the international financial markets were caught between hopes for the economy on the one hand and concerns about rampant inflation and corresponding central bank reactions on the other. Against this backdrop, the S&P 500 marked all-time highs several times during the year and increased by a total of 26.9%. Also the leading European indices reached new record levels. Over the course of the year, however, the performance of DAX (+15.8%) and EURO STOXX (+20.4%) lagged behind that of their US counterpart (S&P 500). But emerging and developing equity markets (MSCI EM: -4.6%) fared much worse, with China (MSCI CHINA: -22.4%) in particular standing out in the face of various government regulatory pushes and woes of the real estate sector.

Expectations of rising key interest rates and less support from central bank bond purchases in the future caused price losses on the bond markets in the USA and Europe in 2021. The yield on 10-year US Treasuries peaked at 1.74% and ended the year at 1.51%, i.e. 0.6 percentage points higher than at the beginning of the year. For German government bonds with the same maturity, the increase was just below 0.4 percentage points. These movements did not spare the risk premiums for Southern European government bonds, whereby the positive economic development and the continuing support by the central banks – as for corporate bonds – prevented stronger increases. In line with the prices of other commodities, the oil price rose strongly from USD 52 to USD 78 (Brent) in 2021, whereas the gold price lost 3.6% falling to USD 1,828 per fine ounce and the EUR depreciated by 6.9% to 1.137 against the USD.

International insurance markets

International property/casualty insurance has shown resilience in the face of the COVID-19 crisis. Overall, a positive premium growth was recorded in 2021. The industrial business, in particular, benefited from the above-average growth. As expected, the growth in the emerging markets was higher than in the developed insurance markets.

Of the developed insurance markets, Asia-Pacific showed the strongest growth. Europe and North America also recorded stable premium growth. The positive premium trends in the emerging markets were driven by the growth in China as well as the other emerging markets. Latin America saw a positive real premium growth in 2021 again.

Losses caused by natural disasters in the year under review were higher than in the previous year and thus again above the ten-year average to date – both in terms of total losses and insured losses. The two highest loss amounts were caused by hurricane “Ida” at the end of August and winter storm “Uri” and other secondary natural hazard events in February in the USA. Europe – primarily Germany, Belgium, the Netherlands, the Czech Republic and Switzerland – was affected by high natural hazard losses due to the flood disaster in July.

In international non-life reinsurance, developments were mainly influenced by the impact of the COVID-19 pandemic and the high natural hazard losses, which drove up the burden of large losses. In view of greater uncertainty, the increasing price trend already observed in 2020 continued through successive rounds of contract renewals during the year.

German insurance industry

In property/casualty insurance, the German insurance industry experienced a slightly lower premium growth in 2021 compared to the previous year. Due to the pandemic, a lower premium income was recorded in motor vehicle and property insurance. Despite the reduced COVID-19-related restrictions, the motor vehicle business was not able to match the pre-COVID-19 premium growth.

Overall, claims payments were significantly above the level of the previous year. The year 2021 was particularly burdened by the flood disaster caused by the heavy rain event “Bernd” as well as other storm events with high natural hazard losses. Insured weather-related losses exceeded more than three times the long-term average.

Legal and regulatory framework conditions

Insurance companies (insurance and reinsurance), banks and capital management companies are subject to comprehensive legal and financial supervision by supervisory authorities worldwide. In the Federal Republic of Germany, this task is the responsibility of the German Federal Financial Supervisory Authority (BaFin). In addition, there are also comprehensive legal requirements for business activities. In recent years, the regulatory framework conditions have become more stringent, resulting in increasing complexity. This trend continued in 2021.

The distribution of insurance products is subject to extensive legal requirements. In addition to the statutory requirements, primary insurers have to observe the requirements of the BaFin Circular 11/2018 on cooperation with insurance intermediaries and on risk management in distribution when working together with intermediaries. Product oversight and governance of insurance products is subject, inter alia, to the Delegated Regulation (EU) 2017/2358 of the European Commission.

The BaFin Circular 2/2017 (VA) on the regulatory interpretation of the Minimum requirements for the governance of insurance undertakings (MaGo) explains overarching aspects of business organisation from the perspective of the supervisory authority, as well as key terms such as “proportionality” and “administrative, management or supervisory body”. Notwithstanding the fact that this document is not legally binding, MaGo will also be taken into account in the design of the Group’s business organisation, in particular in the areas of general governance, key functions, the risk management system, capital requirements, the internal control system, outsourcing, and emergency management.

Under the Anti-Money Laundering Act (GwG), HDI V.a.G. as the parent company of the Talanx Group, which HDI Global Specialty SE is a part of, has had to ensure since 2020 that all Group companies committed to money laundering prevention implement defined minimum standards. In the fourth quarter of 2020, the Group’s anti-money laundering function rolled out a Group-wide risk analysis according to the requirements of the Anti-Money Laundering Act (GwG) in all divisions and documented the risk-based measures of the Group companies committed to money laundering prevention. In addition, a Group-wide reporting procedure on a quarterly basis was implemented in the second quarter of 2021 to ensure the exchange of information inside the Group. The overall risk for HDI Global Specialty SE of being misused for money laundering and terrorist financing is rated as low. HDI Global SE implements the measures according to the Group's guidelines in order to comply with the requirements of the Anti-Money Laundering Act.

In recent years, digitalisation has become increasingly important. This has been accompanied by a transition to digital, data-based business models; the resulting legal issues and challenges relating to IT security are also playing an increasingly important role at HDI Global Specialty SE. In Circular 10/2018 on Insurance Supervisory Requirements for IT (VAIT), the BaFin provided guidance on the interpretation of the provisions on business organisation in the German Insurance Supervision Act, insofar as these relate to the technical and organisational equipment of companies. The same applies with regard to Circular 11/2019 on Capital Management Supervisory Requirements for IT (KAIT). These circulars are continuously being adapted and expanded. The authority has also published guidance on outsourcing to cloud providers. Furthermore, this year there were regulatory initiatives at the EU and German levels for the development, deployment and use of artificial intelligence, which also affect the insurance industry, and whose development and specific impact on the Talanx Group are being monitored.

At HDI Global Specialty SE, we process extensive personal data when handling e.g. applications, contracts and benefits. To ensure compliance with data protection requirements, such as the EU General Data Protection Regulation (GDPR) and the German Federal Data Protection Act (BDSG), the data protection management system is geared towards advising and monitoring compliance. The employees are sensitised to the careful handling of data (training) and are subject to a written obligation to comply with the data protection requirements.

For process-independent data protection requirements, e.g. contracting service providers, central procedures must be complied with. The same applies to the data protection rights of customers, shareholders and employees.

For HDI Global Specialty SE, compliance with applicable laws is a prerequisite for sustained successful business activities. The Company dedicates great attention to adapting its business and products to the legal, regulatory and tax environment. The mechanisms installed to this end ensure that future legal developments and their effects on our business activities are identified and evaluated at an early stage such that we can make the necessary adjustments in good time.

Business development

In the 2021 financial year, a further increase in gross premiums written was achieved in line with our expectations. This is due to portfolio growth on the one hand, and on the other hand to pricing developments in selected lines of specialty insurance. In addition, the company has taken over specialty insurance business from HDI Global SE. Overall, we are satisfied with the course of the financial year.

The exchange rates with the greatest relevance to us developed as follows:

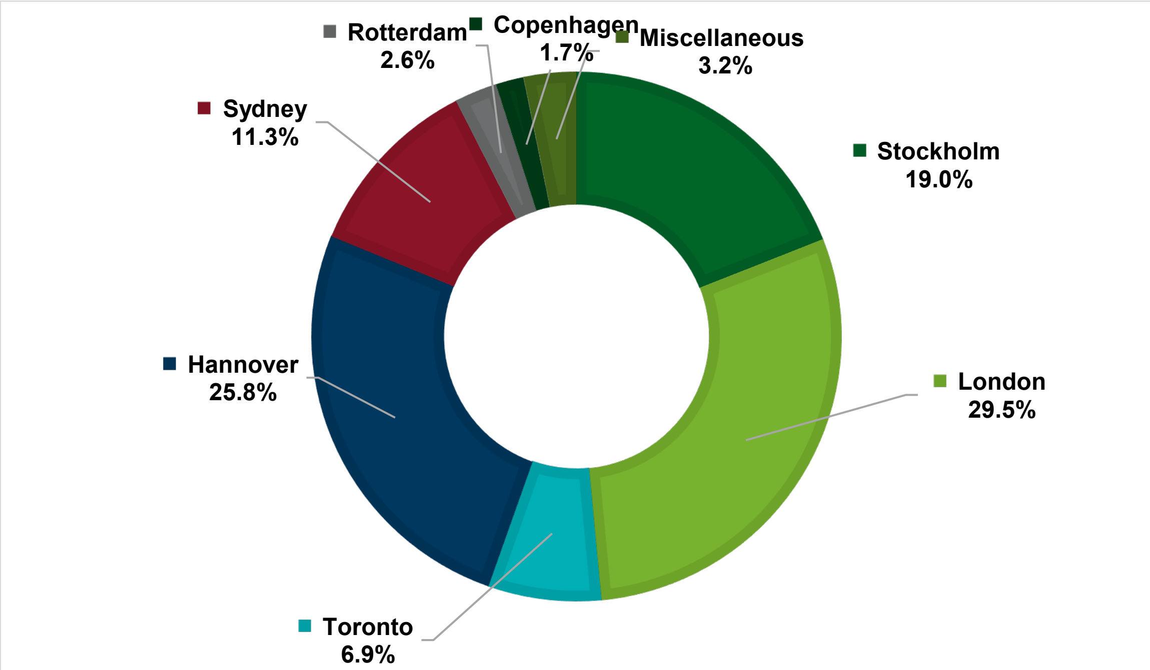
Currency (1 EUR =)	31 December 2021	31 December 2020
Australian dollar	1.55960	1.60300
British pound	0.83931	0.90405
Canadian dollar	1.44909	1.57038
Norwegian krone	9.95960	10.54010
Swedish krone	10.23510	10.05600
US dollar	1.13435	1.22910

The gross premium volume in the financial year amounts to EUR 2,476.2 million and, at 23.0%, is clearly above the level of the previous year (EUR 2,013.0 million). At EUR 2,200.6 million (previous year: EUR 1,784.0 million), the direct insurance business continued to account for the majority of this. To supplement our business we also assumed reinsurance business to a small extent. For the assumed reinsurance business we recorded gross premiums amounting to EUR 275.6 million (previous year: EUR 229.0 million).

The share of business operated by the international branches remained at a constant level of 74.2% (previous year: 74.4%). The latter generated an absolute premium volume of EUR 1,837.0 million (previous year: EUR 1,496.9 million). They therefore continue to represent a decisive share of the gross premium income, and thus reflect the international orientation of the Company.

In the year under review, we wrote premiums of EUR 730.5 million (previous year: EUR 680.8 million) via the London branch. To achieve strong premium growth in line with our strategy, both new business opportunities were used and business with existing customers was further expanded. We have consistently terminated business relationships with customers who did not meet our margins. The Stockholm branch posted gross premiums of EUR 469.3 million (previous year: EUR 383.8 million) in the 2021 financial year, thereby further expanding its market position. As in previous years, we were able to significantly expand our business at the Hannover location and generated gross premiums amounting to EUR 639.2 million (previous year: EUR 516.0 million) . The pleasing development of the previous year continued for our Sydney location in the 2021 financial year, as reflected in particular in a significant increase in gross written premiums from EUR 233.4 million to EUR 280.4 million. Our Canadian branch based in Toronto also posted growth in gross written premiums to EUR 170.0 million (previous year: EUR 114.0 million). Our branch in Italy was able to further significantly increase its premium volume. In the year under review, the premium volume increased by EUR 19.5 million to EUR 30.6 million (previous year: EUR 11.1 million). The new branches in the Netherlands, Belgium and Denmark established in the previous year also contributed to the premium growth in the year under review. The location in the Netherlands generated strong growth of EUR 64.9 million (previous year: EUR 43.2 million). The branch in Belgium was able to increase premiums by EUR 18.7 million to EUR 34.9 million (previous year: EUR 16.2 million). With an increase of EUR 28.3 million to EUR 42.8 million (previous year: EUR 14.5 million), the location in Denmark succeeded in significantly increasing its premium volume in the year under review.

Gross premiums by branches



In the year under review, we continued to cede a large part of our business to the Hannover Re Group. As a result of the reorganisation of the specialty business initiated already in previous years, our Company also reinsured part of the business within the HDI Group in 2021. The transfer of the remaining shares in HGS will increase the reinsurance share within the HDI Group to 65% from the 2022 financial year. In addition, we also use external reinsurance to a minor extent to optimally manage our risks. The gross premiums earned amount to EUR 2,238.1 million (previous year: EUR 1,788.0 million) and the premiums earned for own account amount to EUR 161.2 million (previous year: EUR 131.6 million).

The balance sheet loss ratio (gross) fell significantly during the financial year to 66.3% (previous year: 72.7%). The claims burden continues to be characterised in particular by large loss events, while the quality of the business also improved during the year under review.

The gross expenses for insured events amount to EUR 1,483.8 million (previous year: EUR 1,300.5 million).

Gross underwriting expenses increased in line with expectations due to the higher business volume and amounted to EUR 650.7 million (previous year: EUR 533.1 million) or 29.1% (previous year: 29.8%).

The combined ratio (gross) stands at 95.4% (previous year: 102.6%).

In accordance with the statutory regulations, we allocated an amount of EUR 8.3 million (previous year: EUR 19.7 million) to the equalisation reserve and similar provisions. Hence, the carrying amount of the equalisation reserve and similar provisions amounts to EUR 62.3 million (previous year: EUR 54.0 million). To the extent necessary, we supplemented the observation period on which the calculation of the equalisation reserve is based, by the loss ratios from the BaFin tables published for the insurance industry.

Under consideration of reinsurance, we achieved an underwriting result for own account of EUR 46.1 million (previous year: EUR 9.0 million) in the past financial year.

At the time of preparation of the management report, the economic situation of HDI Global Specialty SE continued to be positive.

Below, we explain the development of the financial year in our insurance lines. Unless stated otherwise, we comment on the gross business development and show the underwriting result for own account.

Direct insurance business

Third-party liability

In EUR million	2021	2020
Gross premiums written	849.2	598.6
Loss ratio (%)	63.2	73.0
Underwriting result (for own account)	20.4	5.1

The premium volume in **liability insurance** amounts to EUR 849.2 million (previous year: EUR 598.6 million). With a premium volume of about 38.6% of our premium income in direct written business, this line of business again represented a major business field in the year under review. The loss ratio in the financial year was 63.2% and, hence, about 9.8 percentage points below the loss ratio of 73.0% in the previous year. After changes in the equalisation reserve, the underwriting result for own account amounts to EUR 20.4 million (previous year: EUR 5.1 million).

Casualty

In EUR million	2021	2020
Gross premiums written	34.2	32.7
Loss ratio (%)	31.6	40.3
Underwriting result (for own account)	2.7	0.1

In **casualty insurance** we were able to increase the gross premiums slightly by EUR 1.5 million to EUR 34.2 million. The loss ratio clearly improved from 40.3% in the previous year to 31.6% in the financial year. In total, the underwriting profit for own account amounts to EUR 2.7 million (previous year: EUR 0.1 million).

Motor vehicle

In EUR million	2021	2020
Gross premiums written	197.8	188.7
Loss ratio (%)	59.5	52.6
Underwriting result (for own account)	8.7	-1.8

In **motor insurance**, the gross premiums amount to EUR 197.8 million (previous year: EUR 188.7 million). The loss ratio has deteriorated in the year under review to 59.5% (previous year: 52.6%). The release of the equalisation reserve for the financial year amounts to EUR 4.3 million (previous year: allocation of EUR 10.1 million). In total, the underwriting profit for own account amounts to EUR 8.7 million (previous year: underwriting loss EUR 1.8 million).

Fire and property insurance

In EUR million	2021	2020
Gross premiums written	679.0	638.6
Loss ratio (%)	78.0	79.3
Underwriting result (for own account)	6.7	5.8

With a gross premium income of EUR 679.0 million (previous year: EUR 638.6 million), the **fire and property insurance** made a major contribution to our total premium income with almost one third of our premium income in direct insurance business. The loss ratio of 78.0% in the year under review is slightly lower than the previous year's ratio of 79.3%. After changes in the equalisation reserve in the financial year, the underwriting result for own account amounts to EUR 6.7 million (previous year: EUR 5.8 million).

Marine and aviation insurance

In EUR million	2021	2020
Gross premiums written	297.0	229.1
Loss ratio (%)	53.1	52.1
Underwriting result (for own account)	5.6	0.0

The gross premium volume in **marine and aviation insurance** increased in the year under review by EUR 67.9 million to EUR 297.0 million in this financial year. The increase resulted from an expansion of our business activities. The loss ratio remained almost unchanged, and is 53.1% (previous year: 52.1%). The underwriting result for own account, under consideration of the equalisation reserve, amounts to EUR 5.6 million (previous year: EUR 0.0 million).

Credit and collateral insurance

In EUR million	2021	2020
Gross premiums written	21.5	32.9
Loss ratio (%)	14.7	37.9
Underwriting result (for own account)	0.5	-0.2

Credit and collateral insurance posted gross premiums written of EUR 21.5 million (previous year: EUR 32.9 million). The loss ratio clearly decreased from 37.9% to 14.7% and thus remains at a low level. In total and after changes in the equalisation reserve, the underwriting profit for own account amounts to EUR 0.5 million (previous year: loss of EUR -0.2 million).

Legal protection insurance

In EUR million	2021	2020
Gross premiums written	31.9	8.5
Loss ratio (%)	9.8	154.6
Underwriting result (for own account)	-2.8	-1.2

In the year under review, business in **legal protection insurance** increased by EUR 23.4 million to EUR 31.9 million (previous year: EUR 8.5 million). After unfavourable claims experience in previous years, the loss ratio clearly decreased to 9.8% (previous year: 154.6%). In total, the underwriting loss for own account amounts to EUR 2.8 million (previous year: underwriting loss EUR 1.2 Mio.).

Other insurances

In EUR million	2021	2020
Gross premiums written	90.0	54.9
Loss ratio (%)	69.8	133.2
Underwriting result (for own account)	0.2	-3.1

In **other classes of insurance** we booked gross premiums of EUR 90.0 million (previous year: EUR 54.9 million). Other insurances include gross premiums written of EUR 0.6 million (previous year: EUR 0.8 million) from the travel assistance insurance. We concluded the financial year with a loss ratio of 69.8% (previous year: 133.2%) for Other insurances. In total, the underwriting profit for own account amounts to EUR 0.2 million (previous year: underwriting loss EUR 3.1 million).

Reinsurance business assumed

In EUR million	2021	2020
Gross premiums written	275.6	229.0
Loss ratio (%)	74.5	84.0
Underwriting result (for own account)	4.3	4.3

We conduct reinsurance business primarily in the third-party liability, marine and aviation, legal protection, fire and other property insurance lines. In these lines we wrote gross premiums of EUR 108.7 million, EUR 72.2 million, EUR 24.8 million, and EUR 36.7 million. In total, we achieved gross premiums of EUR 275.6 million (previous year: EUR 229.0 million), and hence expanded our reinsurance business. The increase primarily resulted from taking over business from HDI Global SE. The loss ratio improved in the year under review to 74.5% (previous year: 84.0%). The underwriting result for own account was EUR 4.3 million (previous year: EUR 4.3 million).

Business ceded to reinsurers

In line with its strategic orientation, HDI Global Specialty SE transferred during the financial year most of its business ceded to reinsurers to companies of the Hannover Re Group as well as to companies of the HDI Group. Hannover Rück SE still has taken over the major portion of the business transferred to Group companies.

In addition, there are non-proportional reinsurance contracts with various reinsurance companies covering, among other things, high exposures to and risks of natural hazards in selected areas.

Written premiums for business ceded to reinsurers amount to EUR 2,275.6 million (previous year: EUR 1,842.5 million). Hence, the retention ratio amounting to 8.1% is lower compared to the previous year (9.2%).

From the reinsurers' perspective, the result from business ceded to reinsurers amounted to EUR 41.2 million in the financial year (previous year: EUR -79.4 million).

Capital investment policy

The Company continues to pursue a security-oriented investment policy and observes the following central investment principles:

- Generation of stable and risk-adequate returns while maintaining a high quality standard of the portfolio.
- Ensuring the liquidity and solvency of HDI Global Specialty SE at all times.
- High diversification of risks.
- Limitation of exchange rate and maturity risks through congruent currency and maturity coverage.

The major part of our investments is invested in fixed-income securities to generate regular and predictable revenues. The portfolio is well diversified, both in terms of investment segments and issuers. In addition, to a minor extent investments have been made in real estate funds. A large part of our investments consists of international government bonds, which are highly secure and highly liquid. Thus, we can always guarantee our solvency. Within the framework of a balanced mix and diversification, part of the capital investments is invested in corporate bonds with, to a minor extent, a BBB rating in order to generate an attractive return even in the current interest rate environment.

In order to control and limit the risk situation, the investments are regularly adjusted to the obligations from the insurance business with regard to the modified durations and the currencies in which they were issued. This enables us to reduce our economic exposure to interest rate change and currency risks.

Development of investments

The carrying amount of shares in affiliated companies and participating interests increased to a total of EUR 73,288 k (previous year: EUR 71,633 k) in the financial year. The shares in affiliated companies amounted to EUR 71,122 k (previous year: EUR 70,462 k) and long-term equity investments were EUR 2,166 k (previous year: EUR 1,171 k).

HGS's portfolio of other investments at carrying amounts increased in line with our expectations in the year under review from EUR 309,871 k to EUR 499,636 k. Major additions in this connection relate to bearer bonds and other fixed-income securities as well as registered bonds.

The distribution of the various investment classes within Other investments for the year under review is as follows. The share of bearer bonds and other fixed-income securities increased slightly to 88.2% (previous year: 88.0%). decreased slightly to 1.6 % (previous year: 2.3 %). Deposits with credit institutions amounted to 3.8% (previous year: 2.8%) as of the reporting date. The shares, units or shares in investment funds amount to 6.4% (previous year: 0%). Other investments were completely reclassified to shares, units or shares in investment funds in the financial year and therefore amount to 0.0% (previous year: 6.9%).

The composition of other investments by rating classes changed slightly compared to the previous year. The still overwhelming share is invested in AAA-rated investments, which account for about 45% (previous year: about 52%) of the other investments. The share of AA-rated investments decreased slightly to about 18% (previous year: about 20%). Individual securities with an A rating account for about 24% (previous year: about 14%) of our portfolio. The share of other investments with a BBB rating amount to about 7% (previous year: 7%). Investments without a rating remained almost unchanged at a share of around 6% (previous year: 7%) and are essentially accounted for by funds that do not have a rating. Overall, our portfolio has a similar level of security as in the previous year.

In line with our underwriting liabilities, our investments are mainly denominated in British pounds, euros, US dollars and Canadian dollars.

The valuation reserves in the other investments amounted to EUR -211 k at the reporting date (previous year: EUR 6,085 k). The hidden reserves amount to EUR 4,683 k (previous year EUR 6,253 k). Of this amount, EUR 3,439 k (previous year: EUR 0 k) are attributable to shares, units or shares in investment funds and other non-fixed-interest securities, EUR 1,244 k (previous year: EUR 5,243 k) are bearer bonds and other fixed-income securities, EUR 0 k (previous year: EUR 1,006 k) are other investments, and EUR 0 k (previous year: EUR 4 k on balance) are other loans. As of the balance sheet date, there were hidden liabilities of EUR 4,894 k (previous year: EUR 168 k) in other investments. Of this amount, EUR 4,793 k (previous year: EUR 0 k) are bearer bonds and other fixed-income securities, EUR 14 k (previous year: EUR 0 k) are other loans, EUR 87 (previous year: EUR 0 k) are shares, units or shares in investment funds and other non-fixed-interest securities and EUR 0 k (previous year: EUR 168 k) are other investments.

Investment income

The current investment income in the year under review amounts to EUR 6,869 k (previous year: EUR 6,978 k) and is attributable in the amount of EUR 6,869 k (previous year: EUR 6,978 k) to current interest income from bearer bonds and other fixed-income securities.

The result from the disposal of investments amounts to EUR 520 k (previous year: EUR 464 k) and consists of gains on disposal of investments amounting to EUR 1,175 k (previous year: EUR 960 k) and losses on disposal of investments amounting to EUR 655 k (previous year: EUR 496 k).

Impairment losses on investments amount to EUR 2,249 k (previous year: EUR 554 k) and are attributable to bearer bonds and other fixed-income securities, which were valued according to the strict lowest value principle. Reversals of impairment losses on investments for which depreciation was recorded in the previous year amount to EUR 0 k (previous year: EUR 285 k).

The management of investments caused expenses of EUR 1,259 k in the financial year (previous year: EUR 656 k). The total investment income amounts to EUR 3,881 k (previous year: EUR 6,517 k).

Other income/expenses

The other income/expenses consists of other income of EUR 23,160 k (previous year: EUR 24,182 k) and other expenses of EUR 68,869 k (previous year: EUR 59,917 k), resulting in a loss on balance of EUR 45,709 k (previous year: loss of EUR 35,735 k) as other income/expenses.

Other income mainly includes income from exchange rate changes and income from service agreements.

Other expenses include expenses from exchange rate changes, which partially compensate for the income. Moreover, the other expenses largely consist of expenses for IT, personnel expenses and depreciation.

Overall result

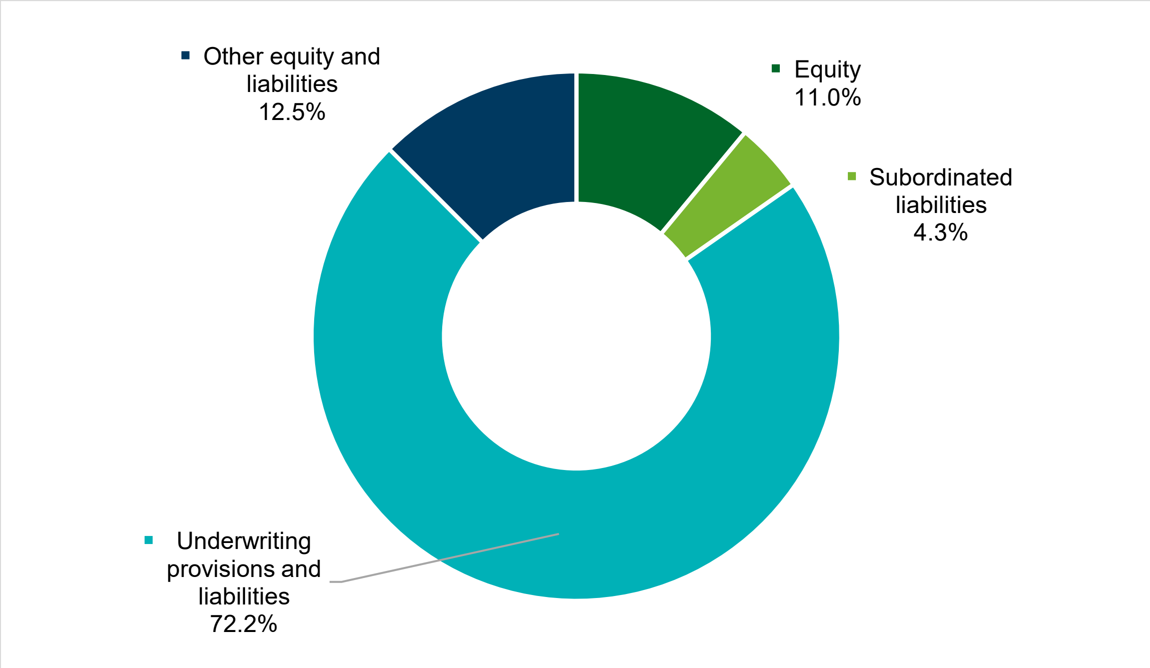
The net income for the financial year amounted to EUR 1,226 k (previous year: net loss of EUR 23,875 k). An amount of EUR 61 k (previous year: EUR 0 k) was allocated to the legal reserve according to section 150 of the German Stock Corporation Act (AktG). An amount of EUR 2,075 k was withdrawn from the capital reserve according to section 272(2) no. 4 of the German Commercial Code (HGB). The distributable profit is EUR 14,831 k (previous year: EUR 11,591 k).

Capital structure

The capital structure and the composition of the equity and liabilities of HDI Global Specialty SE result from our activities as an insurance company. By far the largest share is attributable to technical provisions and liabilities. In addition, there are our equity and our subordinated liabilities.

Overall, our capital structure is highly consistent compared with the previous year, with the equity ratio declining slightly. With 11.0% (previous year: 14.4%) of the balance sheet total, equity continues to be our most important source of financing. Through continuous monitoring and appropriate control measures, we ensure that our business is backed by sufficient equity at all times. Subordinated liabilities, which further strengthen our capital base, account for 4.3% (previous year: 5.3%) of the balance sheet total. With the nominal values remaining unchanged, the decline was caused, in particular, by the increase in the balance sheet total due to the expansion of business. The share of the technical provisions and liabilities amounting to 72.2% (previous year: 78.2%) is clearly below the previous year's level.

Capital structure on the reporting date



Branches

In the 2021 financial year, HDI Global Specialty had the following branches:

- Brussels, Belgium
- Copenhagen, Denmark
- London, United Kingdom
- Stockholm, Sweden
- Milan, Italy
- Rotterdam, Netherlands
- Sydney, Australia
- Toronto, Canada

Outsourcing

Asset investment and management were transferred to Ampega Asset Management GmbH, Cologne, under an outsourcing agreement. The function of internal auditing is performed by the Internal Auditing department of Talanx AG and partially also by the Internal Auditing department of Hannover Rück SE. The processing of claims in the legal protection insurance line of business in the branch office in Stockholm, Sweden, was transferred to Svedea Skadeservice AB in Stockholm.

IT

Under service agreements, data centre and IT-related services are provided by Hannover Rück SE.

Employees

As of 31 December 2021, the Company had 593 employees (previous year: 397).

Our employees

Employee interests, employee development and advancement as well as employee retention

Overview

The aim of HR work at HDI Global Specialty SE is to ensure sustainable, profitable growth for the company. This is achieved with the right staff in the right place, with the right tasks and with the right support. The principles of value-oriented leadership and a culture of togetherness are at the heart of everything we do. Effective and efficient HR processes and services are needed to compete for the top talent of the future and to meet the challenges of demographic change. HR support, HR marketing, initial vocational training and HR development are elementary components of Group-wide HR work. The employees of HDI Global Specialty SE are characterised by a high level of professionalism, above-average commitment, creativity, flexibility and value orientation, but also by a high degree of agility, especially when it comes to digitalisation.

HR marketing

The core tasks of HR marketing are to increase the attractiveness of HDI Global Specialty SE as an employer and the brand recognition of the company, and to support the recruitment of suitable and high-quality candidates from the defined target groups. In addition to law and economics, this also includes people with knowledge in STEM subjects, i.e. science, technology, engineering, and mathematics. The departments contact potential candidates through channels including events, career fairs, and partnerships with selected universities. In addition, cooperation with the Leibniz University of Hannover has intensified within the framework of a partnership with the House of Insurance.

HR development

HR development allows employees of HDI Global Specialty SE and the entire Talanx Group to broaden or consolidate their skills in various development programmes, thus preparing them for taking on more advanced functions. Induction programmes then provide support in establishing themselves as they take on new duties. These programmes continue to be of great importance for the development and retention of employees with potential.

The agile and digital transformation has a significant impact on our learning needs and opportunities, as well as on our personal learning behaviour. Hence, the virtual training offerings and the digital learning content were strongly expanded.

Within the framework of diversity and inclusion management, multi-level unconscious bias training sessions have been offered for managers and employees, as well as various training sessions aimed specifically at women to strengthen their position.

Employees who work in sales fulfil their statutory obligation to attend further training, participating in particular in specialised seminars and sales training courses for specific lines of business.

Transfer of domestic employees

Under the “One HDI” project, the operational structures of the domestic companies of the Talanx Group subject to collective bargaining agreements are being streamlined. This change is aimed at dynamising and streamlining the decision-making structures within the Group. The project covers the 12 employer companies subject to collective bargaining agreements. The tasks and functions of the domestic employees of HDI Global Specialty SE will be spun off to HDI AG as of 01 March 2022. The legal consequence is the transfer of the employees to HDI AG by way of transfer of operations according to section 613a of the German Civil Code (BGB). The employees continue to act on behalf of HDI Global Specialty SE and represent it towards the market and customers.

Personnel secondment

Employee mobility remained highly important also in 2021. During long-term secondments, the Company's specialists and managers make an important contribution to the expansion of the global business by taking on essential tasks abroad.

International projects for the strategic further development of HDI Global Specialty SE give employees of the foreign branches the opportunity to spend some time working at the Hannover location and gain international experience.

Remuneration

HDI Global Specialty SE offers its employees attractive remuneration packages. For senior executives, the remuneration currently consists of a fixed component and a variable component based on success and performance. The distribution is determined by the responsibility or function level of a position, which is determined by a standardised job evaluation system. The amount of the variable remuneration itself is determined by the achievement of individual targets, as well as targets of the Talanx Group and the division.

Thanks to the employees

The Executive Directors thank all employees for their commitment in the past year. At all times, the workforce has identified with the Company's objectives and pursued them successfully. We would like to thank the employees and representatives who have been active in our co-determination committees for their critical and constructive cooperation.

Sustainability at HDI Global Specialty SE

For HGS, sustainability means the commitment to long-term economic value creation combined with the forward-looking concept of good corporate governance, ecological self-commitment and social responsibility.

Information on sustainability factors within the Talanx Group can be found in the non-financial statement in the Talanx Group Annual Report as well as detailed explanations in the Talanx Group Sustainability Report and online at www.talanx.com/nachhaltigkeit.

Risk report

Our ultimate goal

As the dedicated specialty insurer of the Talanx Group, HGS offers tailor-made insurance solutions in selected special and niche markets, which are mainly distributed via brokers and managing general agencies or underwriting agents. The HGS business model is divided up into two segments – delegated authority business and single risk business. In both segments, the product portfolio of HGS comprises not only the Aviation, Space, Marine, Riding and Show Horse, Legal Expenses, Manager's Liability, M&A, Events, Securities, Kidnap & Ransom lines of business, but also Mining insurance. HGS also offers supplementary services within the Talanx Group. The company's network of branches allows HGS to provide customer and sales partner-oriented support in the respective markets while simultaneously maintaining its global orientation. To be able to take advantage of business opportunities whenever they arise, the Company aims at maintaining an adequate capital resources at all times. Moreover, the Company follows the risk-adjusted return requirements. In addition, risk management of HGS is embedded in the risk management system of the Talanx Group. Risk management and monitoring is therefore not only performed at the level of HGS, but additionally also at the level of HDI Global SE and the Talanx Group.

Strategy implementation

Our corporate strategy defines the principles that will enable us to realise our vision of being a top provider of specialty insurance that is recognised for its expertise. A characteristic feature of HGS should be that the business partners are served in a solution-oriented manner and with excellent service. High-performing employees should find an attractive workplace with the necessary room for manoeuvre. With efficient processes and a responsible and transparent organization, HGS aims to sustainably achieve a competitive position for the Talanx Group in the top quartile of the most profitable specialty insurers. Within the Talanx Group, HGS finds its preferred reinsurance partners.

We derive our risk strategy from the corporate strategy. The main strategic points of reference for our risk management are the following principles of the corporate strategy:

- We actively manage risks.
- We provide adequate capital resources.
- We focus on sustainability, integrity and compliance.

The risk strategy further specifies the objectives of risk management and documents our understanding of risk. We have defined ten overriding principles in the risk strategy:

1. We comply with the risk appetite set by the Board of Directors.
2. We incorporate risk management into the decision-making processes of the company.
3. We promote an open risk culture and the transparency of the Risk Management System.
4. We support HDI Global SE in meeting the requirements of the rating agencies.
5. We fulfil the regulatory requirements.
6. We act under due consideration of materiality and proportionality.
7. We apply appropriate quantitative and qualitative methods.
8. Through our organisational structure we ensure that the individual risk management functions are independent of one other.
9. We utilise suitable methods to manage our risks.
10. We continuously develop ourselves further in order to adequately address changes in our risk profile.

Our risk strategy identifies our core risks, risk-bearing capacity and risk tolerance. It is the central element in our handling of risks. We review the risk strategy, the risk register, the guidelines for managing operational and reputational risks, the underwriting guidelines, the capital investment guideline, the limit and threshold value system and the risk and capital management guideline at least once a year. This ensures that our Risk Management System is up to date.

Significant external factors influencing risk management in the past financial year

In the past financial year, HGS made targeted use of the growth opportunities that arose from the strategic orientation of the Company in combination with the hardening markets. In both agency and individual risk business, new business relationships were established and existing connections expanded, building on the structures created in previous years. Growth was supported by strengthening the existing workforce and the HDI brand, expanding the underwriting teams, and through the sales capacities of the HGS branches close to the market. Moreover, HDI Global SE took over the equity shares from Hannover Rück SE in order to reduce complexity.

Both the COVID-19 pandemic and the high frequency of claims from natural hazards reinforced the hardening trends already detected in conditions and prices, and subsequently accelerated the increase in HGS's business volume. This was possible because the business operations of HGS and its internal and external outsourcing partners continued almost unchanged on a working-from-home basis. Another favourable effect was that customers treat insurance spending as non-optional, and in fact tend to buy more protection in volatile times. The COVID-19 pandemic is a significant large loss event for HGS, particularly in the film industry and event cancellation lines, and has a corresponding impact on the technical performance in 2021. The terms and conditions for coverage of losses caused by a pandemic have often been structured in the manner customary for the market, resulting in different interpretations, which meanwhile have been clarified in court in some countries. In lines such as aviation, art insurance and credit, it is necessary to offer clients high capacities. In order to match this offer with the risk appetite of HGS, external reinsurance capacity is purchased. Pricing pressure and capacity shortages can also be observed in the reinsurance markets. HGS rather tends to favour moderate sums insured with a large number of policyholders in its underwriting. Various initiatives were launched under the heading of "de-risking", including the new development of software for improved aggregate control to achieve further optimisation of the portfolio.

The recruitment and integration of new employees continues to be a challenge for HGS, as does the further development of the organisational structure and procedures. The ongoing improvement of outsourcing management is of particular importance for HGS. To successfully cope with the anticipated higher number of units as well as the envisaged expansion of vertical integration, a project was set up to introduce an inventory management system, which is expected to result in a higher degree of automation and also a better service level for our customers. Existing initiatives to modernise the IT landscape, in particular the expansion of a data warehouse, were advanced further, and digitalisation was lastingly boosted by the COVID-19 pandemic. Nevertheless, insurance is based on mutual trust, which is built up in a special way through personal contacts. Hence, HGS expects positive impulses from the transition from the pandemic to an endemic.

To counter the consequences of the Brexit process, HGS took a number of measures at an early stage. HGS was thus included in the so-called "temporary permissions regime" (TPR) by the Prudential Regulatory Authority (PRA). This status allows HGS to continue to carry on business and gradually expand the UK branch to a third country branch before the expiry of the TPR. HGS expects the application for the operation of a branch to be granted an approving response by the PRA in spring 2022.

HGS expects that monetary policy measures to mitigate the effects of the COVID-19 pandemic will continue to keep interest rates low in the capital markets. We actively seek an attractive risk/return ratio. The volatility of exchange rates is another significant external factor influencing risk management.

In the course of the year, sustainability risks have increasingly come to the fore. HGS defines sustainability risks as events or conditions arising from environmental, social or corporate governance factors, including climate-related risks in the form of physical risks and transition risks. HGS has formed a Sustainability Coordination Group to deal with sustainability issues and identify key areas for action. Moreover, HGS is involved in Group-wide working groups to ensure a uniform approach to the issue of sustainability within the Talanx Group.

Geopolitical tensions and armed conflicts, as currently in Ukraine, bring about risks for the political balance of power in Europe and worldwide. They may have significant impacts on the financial markets as well as moderate impacts on specialty insurance markets. Resulting increases in energy prices may further drive inflation.

Risk capital

In the interest of its policyholders and shareholders, HGS ensures an appropriate relationship between risks and equity. Our quantitative risk management, based on our internal capital model, provides a uniform framework for the assessment and management of all risks affecting the Company and our capital position.

HGS's internal capital model, the Specialty Internal Model (SIM) of HDI Global Specialty, is a stochastic corporate model covering all business fields of HGS. The SIM determines the required regulatory and economic risk capital as value at risk (VaR) of the change in value over a period of one year with a confidence level of 99.5%. It takes into account all material risks affecting the development of equity.

We have identified a number of risk factors for the risk categories of underwriting risks, market risks, bad debt risks and operational risks for which we define probability distributions. Risk factors include, for example, economic indicators such as interest rates, exchange rates and inflation indices, but also insurance-specific indicators like the number of natural disasters in a particular region and the insured damage amount per catastrophe. When determining the probability distributions for the risk factors, we make use of historical and publicly available data as well as internal data. Moreover, the process is complemented by the knowledge of internal and external experts.

As part of HGS's risk management, compliance with regulatory solvency requirements is regularly monitored in order to ensure that the one-year ruin probability of 0.5% is not exceeded. HDI Global Specialty's capitalisation should always be above 120% of the regulatory requirements.

Organisation and processes of risk management

In order to ensure an efficient Risk Management System, HGS has anchored the position of Chief Risk Officer on the management level and established a Risk Controlling function as well as an Audit, Compliance and Risk Committee. The organisation and interaction of the individual Risk Controlling functions are decisive for our internal risk management and control system. In our system, the central Risk Controlling functions are closely interlinked and the roles, tasks and reporting channels are clearly defined and documented in line with the so-called three lines of defence. The first line of defence consists of risk management and original risk responsibility. The second line of defence consists of the key functions, namely the Risk Controlling, Actuarial and Compliance function. These units are responsible for surveillance. The third line of defence consists of the internal auditing.

Key Elements of our Risk Management System

The elements of our risk management system comprise our risk strategy, the guidelines for risk and capital management, operational and reputational risks, and limit and threshold value system for the material risks of HGS. The risk management system is subject to a permanent cycle of planning, activity, control and improvement. In particular, systematic risk identification, analysis, assessment, control and monitoring as well as risk reporting are of importance for the effectiveness of the overall system.

The guidelines specify, among other things, the tasks, rights and responsibilities, the organisational framework conditions and the risk control process. The regulations are derived from the corporate and risk strategy and also take into account the supervisory requirements for risk management.

Risk-bearing capacity concept

Calculating the risk-bearing capacity includes determining the overall risk coverage potential available and calculation of the funds required to cover all risks. This is carried out in line with the specifications of the risk strategy and the risk appetite defined by the Board of Directors. Our internal capital model is used to assess the individual risks that can be quantitatively assessed and the overall risk position. A central limit and threshold value system is in place to monitor material risks. This system comprises the limits and thresholds derived from the corporate strategy. Compliance is monitored on an ongoing basis.

Risk identification

Regular risk identification is an essential information basis for monitoring risks. The identified and material risks are documented in the risk register, but also within the framework of regular risk reports. Risks are identified, for example, in the form of assessments, scenario analyses or as part of the new-products process. External findings, such as recognised industry know-how from relevant bodies or working groups, are included in the process. Risk identification is important to permanently keep our risk management up to date.

Risk analysis and assessment

Basically, each risk identified and deemed significant is assessed in quantitative and qualitative terms. Risk types for which a quantitative risk measurement is currently difficult or impossible are assessed qualitatively only, e.g. strategic risks, reputational risks or emerging risks. The quantitative assessment of the significant risks and the overall risk position is carried out by applying the internal capital model of HGS, the Specialty Internal Model. It takes into account the risk concentration and risk diversification.

Risk management

The control of all material risks – both individually and at the portfolio level – is the responsibility of the operational units. The identified and analysed individual risks are either consciously accepted, avoided or reduced. Decisions made by the operational units of the first line of defence always consider the chance/risk ratio. Among other things, risk management is supported by the requirements of the subscription and capital investment guidelines and by defined limit and threshold values.

Risk monitoring

The task of the Risk Controlling function is to monitor all identified material risks. This includes, among other things, monitoring of the risk strategy implementation, compliance with defined limit and threshold values and the permanent application of risk-relevant methods and processes. Moreover, an important task of risk monitoring is to determine whether the risk management measures have been implemented and whether the planned effect of the measures is sufficient.

Risk communication and risk culture

Risk management is firmly integrated into our operational processes. This is supported by transparent risk communication and an open approach to risks as part of our risk culture. Risk communication takes the form, for example, of internal and external risk reports and training courses for employees. Also the regular exchange of information between risk-controlling and risk-monitoring units is fundamental to the proper functioning of risk management.

Risk reporting

Our risk reporting provides structured and timely information on all material risks and their potential impact. The risk reporting system consists of regular risk reports, e.g. on the overall risk situation, compliance with the input parameters defined in the risk strategy or the capacity utilisation of the natural disaster scenarios. Risk reporting focuses not only on the current but also on the expected risk situation. In addition to regular reporting, internal immediate reports on major and short-term risks are prepared as required.

We met the supervisory reporting requirements for HGS with – among other things – the quarterly risk report, quantitative reporting, the Solvency and Financial Position Report (SFCR), the Regular Supervisory Report (RSR) and an Own Risk and Solvency Assessment Report.

Process-integrated and independent monitoring and quality assurance

The management is responsible for the proper business organisation of the Company, irrespective of the internal rules of responsibility. This also includes monitoring the internal risk management and control system. Process-independent monitoring and quality assurance of risk management is carried out by the internal auditing department and external bodies (supervisory authorities and auditor). The auditor examines, in particular, the early risk detection system. Process-integrated procedures and regulations, such as the internal control system, complete the overall system.

Internal control system

We conduct our business activities such that they always comply with all legal requirements. The internal control system (ICS) is an important element that serves, among other things, to secure and protect existing assets, prevent and detect errors and irregularities and comply with laws and regulations. The core elements of the HGS ICS are documented in a guideline which creates a common understanding for a differentiated implementation of the necessary controls. Its ultimate goal is to consistently control and monitor the implementation of our corporate strategy. This guideline defines terms, regulates responsibilities and provides guidance on the description of controls. In addition, it forms the basis for the implementation of internal goals and the fulfilment of external requirements placed on HGS. The ICS consists of organisational and technical measures and controls within the Company. They include, for example:

- the four-eyes principle,
- the separation of functions,
- the documentation of the controls within the processes as well as
- technical plausibility checks and access authorisations in the IT systems.

For the ICS to function, it is important that the management, executives and employees participate at all levels.

In the area of accounting and financial reporting, processes with integrated controls ensure that the financial statements are prepared completely and correctly. This ensures that we can identify at an early stage and reduce the risk of material errors in the financial statements. As our financial reporting is highly dependent on IT systems, it is also necessary to control these applications. Authorisation concepts regulate system access, with content and system checks being implemented for each step to facilitate the analysis and elimination of errors.

Risk landscape

HGS assumes a great many of risks in the course of its business activities. These risks are consciously entered into, managed and monitored in order to take advantage of the associated opportunities. The guidelines and decisions of the Board of Directors regarding risk appetite are fundamental to the assumption of risks. They are based on the calculations of the risk-bearing capacity.

Underwriting risks

Risk Management has defined various overarching guidelines for efficient risk management. It is essential that the assumption of risks is, on the one hand, systematically controlled by the existing underwriting guidelines and, on the other hand, mitigated to a large extent by Group-internal reinsurance in accordance with the business model of HGS. Our conservative level of reserves is an important indicator for risk management. We fundamentally distinguish between risks resulting from business operations in previous years (reserve risk) and risks resulting from business operations in the current year or future years (price/premium risk).

A high diversification effect is achieved by underwriting business in different lines of business and different regions with different business partners via the most diverse distribution channels. In addition, the active limitation of concentration risks, such as natural disasters, strengthens the diversification effect. The degree of diversification is measured in our internal capital model.

The reserve risk, i.e. the risk of under-reserving for losses and the resulting strain on the underwriting result, is of special importance in our risk management. A conservative level of reserves is important for us. To counter the risk of under-reserving, we calculate our loss reserves on the basis of our own actuarial assessments. The IBNR reserve is formed in accordance with the relevant provisions for losses that have already occurred but have not yet come to our attention. The classes of business with a longer run-off period have a significant influence on the IBNR reserve. The IBNR reserve is calculated differentiated according to lines of business and regions. Another monitoring tool is the statistical run-off triangles we use. They show how the provision has changed over time as a result of the payments made and the recalculation of the provision to be formed as at the respective reporting date. The appropriateness of these is monitored by our actuarial department. On an annual basis, quality assurance of our own actuarial calculations regarding the adequacy of the reserve amount is additionally performed by external experts.

Licensed scientific simulation models are used to assess the disaster risks from natural hazards (in particular earthquakes, storms and floods) that are material to us. We also determine the risk for our portfolio using various scenarios in the form of probability distributions. The monitoring of risks resulting from natural hazards is complemented by realistic extreme loss scenarios. As part of this process, the Board of Directors determines the risk appetite for natural hazards once a year on the basis of the risk strategy. To this end, it determines the portion of the risk budget that is available to cover risks from natural hazards. This is an essential basis for our underwriting approach in this segment. As part of our holistic risk management, we take into account a large number of scenarios and extreme scenarios, determine their impact on the portfolio and success variables, assess them in comparison with the planned values and point out alternative courses of action. To monitor risks, we regularly report on the effects of various extreme loss scenarios and return periods. Risk management ensures that the maximum amounts made available as part of risk management are complied with.

Market risks

In view of the challenging capital market environment, the preservation of the value of our investments and the stability of our rate of return are of great importance. HGS therefore bases its portfolio on the principles of a balanced risk/return ratio and broad diversification. Based on a low-risk investment mix, the investments reflect both currencies and maturities of our liabilities. Market risks include equity, interest rate, currency, real estate, spread and credit risks. We minimise interest rate and currency risks by matching payments from securities as closely as possible with forecast future payment obligations from our insurance contracts.

In order to ensure that our investments retain their value, we continuously monitor compliance with a comprehensive early warning system. This system defines clear limits and thresholds as well as escalation paths for the market value fluctuations and realisation results from investments accumulated since the beginning of the year. They are clearly described in line with our risk appetite.

Stress tests were conducted for our capital investments.

Stress test	Change of AuM in EUR million	Change in %
-100 bp	13.99	1.8
-50 bp	6.91	0.9
+50 bp	-6.74	-0.9
+100 bp	-13.33	-1.7
+200 bp	-26.04	-3.4

The change in the fair values of the capital investments as revealed by the various stress tests is within the scope of HGS's risk appetite.

In addition to the various stress tests, which estimate the loss potential under extreme market conditions, sensitivity and duration analyses and our Asset Liability Management are further material risk management measures. Duration bands have also been installed within which the portfolio is being positioned in line with market expectations. The portfolio of fixed-income securities is exposed to the interest rate change risk. Falling market yields lead to increases in the market value and rising market yields to decreases in the fair value of the fixed-income securities portfolio. In addition, the credit spread risk exists. The credit spread is the difference in interest rates between a high-risk bond and a risk-free bond with identical maturities. Changes in these risk premiums observable on the market lead to changes in the market value of the corresponding securities analogous to changes in pure market yields.

Currency risks exist in particular when there is a currency imbalance between underwriting liabilities and assets.

The installed measurement and monitoring mechanisms ensure a cautious, broadly diversified investment strategy.

Bad debt risk

The bad debt risk consists of the risk of total or partial default by the counterparty and the associated payment default.

Since a majority of the business assumed by us is reinsured, the bad debt risk in reinsurance is of major importance to us. In line with its role within the Group, HGS cedes underwriting risks predominantly to companies of the Talanx Group. In order to minimise the bad debt risk resulting from business ceded to third parties, our non-Group reinsurers are carefully selected and monitored from the point of view of credit quality. Depending on the type and expected duration of the run-off of the reinsured business, also internal and external expert assessments are used for the selection of reinsurers in addition to the minimum ratings of the rating agencies Standard & Poor's and A. M. Best. The bad debt risk from companies of the Talanx Group is monitored using the internal capital model. In particular, we also monitor our relationships with brokers, managing general agencies and claims managers who are exposed to a risk, for example through the possible loss of premiums paid by policyholders to business partners. We reduce these risks, for example, by reviewing broker relationships for criteria, such as professional liability insurance, payment behaviour and proper contract execution.

Reinsurance default risk by rating

Rating	Reinsurance recoverables in EUR million	Values in %
AAA - A	2,723.18	99.13
< BBB	23.77	0.87

Operational risks

Operational risks include the risk of losses due to inadequate or faulty internal processes as well as employee-related, system-related or external incidents. In contrast to underwriting risks (e.g. reserve risk), which we consciously and controllably enter into in the course of our business activities, operational risks are inseparably linked with our business activities. Hence, the focus is on risk avoidance and reduction.

Based on self-assessments, which we document in the regular risk reports, we continuously analyse and monitor the risk situation and define areas of action for improvement. For determining the capital tie-up in our internal model, we use the Self-Assessment of Operational Risks procedure, which enables us to describe future operational loss scenarios.

Within the overall framework of operational risks, we consider in particular business process risks (including data quality), compliance risks, outsourcing risks, fraud risks, personnel risks, information and IT security risks and business interruption risks.

Business process risks consist of the risk of inadequate or faulty internal processes which may arise, for instance, as a result of inadequate process organisation. Here, data quality is a critical success factor. By continuously optimising our processes, we reduce the risks in this area.

Compliance risks primarily consist of the risk of violations of standards and requirements which can result in lawsuits or official proceedings with a not inconsiderable impairment of the business activities of HGS if they are not observed. Regulatory compliance, compliance with business principles, data protection and also antitrust and competition law compliance were defined as issues of particular relevance to compliance. The compliance risk includes tax and legal risks.

With the help of a sanction-screening software, parts of the underwriting portfolio of HGS as well as payment transactions are filtered by persons and companies that are subject to sanctions. If such persons or companies are discovered, appropriate measures are taken.

The responsibilities within the compliance organisation are regulated and documented. Interfaces with risk management are established. Regular compliance training programmes supplement the range of tools available.

Outsourcing risks may result from the outsourcing of services and/or organisational units to third parties outside HGS. To limit the risk, there are binding regulations which, for example, require a risk analysis be performed prior to significant outsourcing. Within the framework of such analysis, it is examined, among other things, which specific risks exist and whether outsourcing is possible at all. In particular, when insurance-specific activities are outsourced, risks are reduced by carefully selecting the agencies and claims managers, agreeing binding underwriting and loss adjustment guidelines and performing regular reviews, including on-site reviews.

Fraud risks arise from the risk of intentional violations of laws or regulations by employees (internal fraud) and/or by external parties (external fraud). The internal control system and the line-independent audits of the Auditing department reduce such risks.

The functional and competitive capability of HGS is largely attributable to the competence and commitment of our employees. In order to reduce personnel risks, we pay particular attention to the qualifications, experience and motivation of our employees and promote them through personnel development and leadership work. Regular monitoring of fluctuation rates and other key personnel figures ensure that personnel risks are identified at an early stage and create scope for action.

Information technology risks and information security risks consist, among other things, of the risk of inadequate integrity, confidentiality or availability of IT systems and information. For example, potential damage that could result from non-compliant processing of personal data or from the non-availability of our core systems are essential for us.

In view of the wide range of these risks, there are a variety of control and monitoring measures as well as organisational requirements, such as confidentiality agreements to be concluded with service providers.

The primary objective in reducing the risks of business interruption is to return to normal operation as quickly as possible after a crisis, e.g. by implementing existing emergency plans. On the basis of internationally recognised standards, the decisive framework conditions were worked out and also a crisis unit was formed to serve as a temporary management body in the event of a crisis.

Other risks

Under the heading of other risks, the most significant for us are emerging risks, strategic risks, reputational risks and liquidity risks.

Emerging risks are characterised by the fact that their risk content cannot be reliably assessed, particularly with regard to our underwriting portfolio. Such risks gradually develop from weak signals to clear trends. Early risk detection and subsequent assessment are of crucial importance to us.

Strategic risks arise from a possible mismatch between the corporate strategy of HGS and the constantly changing framework conditions of the environment. This imbalance may be caused by wrong fundamental strategic decisions, inconsistent implementation of defined strategies and business plans or wrong allocation of resources. Therefore, we regularly review our corporate strategy and adjust our processes and derived guidelines as necessary. For the operational implementation of the strategic principles and objectives, we have defined success criteria and key figures that are decisive for the achievement of the respective objectives.

Reputational risks relate to the risk that the trust in our Company of current and potential customers, business partners and employees, or the greater public and our shareholders, may be damaged. This risk can jeopardise the business basis of HGS. A good corporate reputation is therefore a basic prerequisite for our business. Reputational risks may arise from all business activities of HGS, but also of other market players.

We define liquidity risk as the risk of not being in a position to meet our financial obligations when they fall due or to achieve lower returns on investments. The liquidity risk consists of the refinancing risk (cash and cash equivalents required could not be procured at all or only at increased cost) and the market liquidity risk (financial market transactions could only be concluded at a lower price than expected due to a lack of market liquidity). Key elements of the liquidity management of our investments are, on the one hand, the management of the maturity structure of our investments on the basis of the planned payout profiles from underwriting liabilities and, on the other hand, regular liquidity planning, which additionally takes matching currency cover into consideration. Beyond the foreseeable payouts, a liquidity risk could be posed by unexpected and extraordinarily high payouts, e.g. due to a catastrophe, which is countered in actuarial practice by so-called cash calls on reinsurers.

We manage the overall liquidity of our portfolio of corresponding government and corporate bonds and cash holdings by monitoring the liquidity of these securities on each trading day and placing them in the context of our short-term and long-term payment obligations. These measures effectively reduce the liquidity risk.

Opportunity report

Profitable growth

As a broad-based provider of specialty insurance, HDI Global Specialty SE enjoys excellent growth perspectives. The close business relationships we have built up over the years with our sales partners in the various regions or specialty segments continue to provide significant impetus for substantial organic expansion of the portfolio. Our branch network allows us to seize numerous opportunities in a positive market environment. As a member of the Talanx Group, a variety of cooperation opportunities open up, especially in sales but also in administration with Hannover Rück SE and HDI Global SE. The cross-divisional segment expertise in the specialty segment will be combined in one place and will then be able to focus on particularly profitable and high-growth market segments.

Digitalisation

Digitalisation is opening up opportunities for us, because the business model of HDI Global Specialty SE is fundamentally suited to the needs of insurtech and start-ups. We also have cyber insurance products in our product range. This enables us to offer our customers solutions for this changed risk situation. In addition, HGS sees opportunities to improve pricing and risk selection in suitable sub-portfolios with the help of artificial intelligence. The use of web portals is opening up sales opportunities for niche products in the marine and aviation sectors. By establishing the role of a Chief Innovation Officer at management level, the Company expects to gain further impetus to ensure the targeted exploitation of opportunities as they arise.

Emerging risk

To ensure that opportunities can be further identified and ideas can be successfully implemented in business, HGS pursues several closely linked paths to achieve a holistic opportunity and risk management. Non-overlapping interaction of the various functions within opportunity and risk management is of importance here. The networking of innovative minds results in intensive connections to other projects, working groups and bodies, such as the working group "Emerging Risks and Scientific Affairs" with regard to future risks and opportunities. The working group conducts a qualitative assessment of the emerging risks. As a result, not only the potential risks but also any existing business opportunities are examined. Within the framework of the working group, the topics of demographics, psychoactive substances and social media were analysed in the year under review.

New products process

If a new business opportunity is to be implemented in concrete terms, the so-called New Products Process will generally be completed, provided that the criteria defined for this by risk management are met. This process is supported by HGS's Risk Management. The process is always run through if a contractual commitment is to be entered into that has not yet been applied by HGS in this form or if the operational risk is significantly changed, the risk to be insured is new or if the liability is substantially higher than the previous scope of the coverage. If this is the case, all significant internal and external influencing factors will be examined in advance and evaluated by Risk Management. Furthermore, it is ensured that the Executive Directors approve the application or sale of the new insurance product.

Overall assessment of the management

According to our current knowledge, which results from an overall assessment, the management of HGS does not see any risks which could endanger the continued existence of HGS in the short or medium term or which could significantly and sustainably impair the net assets, financial position and results of operations. We are convinced that:

- our established risk management system provides us with a transparent overview of the current risk situation,
- our overall risk profile and capital resources are appropriate.

In our opinion, the risks described are manageable since our control and monitoring measures are effective and closely interlinked. Our control and monitoring instruments as well as our organisational structure and procedures ensure that we identify risks in good time. Here, our central monitoring instrument is our established risk management system which brings together both qualitative and quantitative information for effective risk monitoring.

Our own assessment that the existing risks are manageable is confirmed by various financial indicators and external evaluations. In our central limit and threshold value system for the material risks of HGS, specific monitoring indicators, corresponding reporting limits and potential escalation steps are bindingly defined. As a result, the system provides us with an overview of potential undesirable developments of the defined risk tolerances and enables us to react promptly.

Forecast report

Our statements below are based on well-founded expert assessments by third parties, as well as on the planning and forecasts we consider to be conclusive; nevertheless, they are our subjective assessment. It can therefore not be ruled out that actual developments will deviate from the expected development shown here.

Economic boundary conditions

The spread of the more contagious Omicron virus variant caused renewed restrictions on public life in many countries around the world at the beginning of 2022, as already in the previous year. Unlike in 2021, however, large parts of the population, at least in the industrialised countries, are now protected from serious courses of the disease by the vaccination campaign such that the restrictions are less severe and should also be less severe in the future in case of further waves of infection. Although global economic growth is anticipated to weaken to a certain extent in the second year after the outbreak of the COVID-19 pandemic, we expect an above-average growth year also in 2022. Growth in the industrialised countries is expected to remain well above the long-term growth potential, whereas the developing and emerging countries will probably return to their pre-crisis growth path.

In Europe, recovery is expected to be primarily further driven by private consumption, which benefits from low unemployment and high savings accumulated during the pandemic. In addition, we expect a higher growth in wages, which will at least partially compensate for inflation, the latter being expected to fall in the course of the year but to remain still elevated.

Moreover, funds are made available from the Next Generation EU package, which have already been approved but most of which have not yet been paid out, while the monetary policy support from the ECB is expected to ease very gradually only.

A similar picture can be observed for the USA, where the persistent labour shortage has evidently led to a clear wage growth. This, together with high savings, will probably fuel private consumption despite increased inflation. In turn, the increased demand is expected to provide incentive for further investments by companies. A headwind will probably be the expected significant decline in monetary and fiscal policy support.

We consider major risks for the global growth outlook to be the insufficient vaccine effectiveness against new virus variants, the (re-)flare-up of geopolitical conflicts (USA/Europe/Russia, USA/China, etc.) as well as a delayed elimination of bottlenecks in global supply chains. Regarding the USA, also too fast/too strong monetary tightening by the US Federal Reserve poses a significant risk to economic recovery, whereas the eurozone in particular would suffer from a weaker than expected economic momentum in China.

Capital markets

After numerous central banks around the globe raised their prime rates already in 2021, we also expect the US Federal Reserve to end its net bond purchases in the first quarter and subsequently begin a cycle of interest-rate hikes. The US prime rate is expected to be 0.5 – 0.75% at the end of the year, i.e. 0.5 percentage points above its current level. Also the ECB is expected to scale back its bond purchases without stopping them completely, a prime rate hike not being on the agenda in 2022 either in our view.

The diminishing but not ending monetary policy support is likely to be reflected in a limited rise in capital market yields, with US yields dragging their European counterparts higher. This could also be accompanied by a further limited rise of risk premiums on corporate and southern European government bonds of historically low levels. Despite the headwind from rising interest rates and a slower corporate earnings growth after the post-COVID-19 boom, we believe in a limited upside potential of the stock markets in 2022. However, in particular interest rates growing too fast/too strong entail the risk of setbacks.

International insurance industry

In the international property/casualty insurance sector, we expect an above-trend positive growth in premium income during 2022. We expect increased growth momentum in both the developed insurance markets and the emerging markets. In the latter, growth is likely to be even more dynamic.

For the developed European insurance markets, we expect premium income to increase in 2022 compared to the year under review; growth in North America is expected to be at a similar level. We believe that one of the driving forces behind this development is further hardening of the market for commercial and industrial insurance, especially in industrial property/casualty insurance. For Central and Eastern Europe and for Latin America, we expect small positive developments. The strongest growth momentum in the coming year is likely to be from Asia, and particularly from China.

Profitability is expected to recover in 2022 after having been under pressure in 2021 due to, for instance, above-average natural disasters. In view of the interest rates likely to continue to be low, a high level of underwriting discipline will be crucial.

German insurance industry

The macro-economic environment continues to be shaped by risk factors, and hence forecasts can generally only be made with reservations. In particular, the uncertainty about the further course of the COVID-19 pandemic will influence the development of the industry in 2022. Under the assumption that protective vaccinations can be successfully expanded and COVID-19-related restrictions successively eased, the GDV estimates that the insurance industry will achieve positive premium growth in 2022 compared to the year under review.

In property/casualty insurance, we anticipate increased growth in premium income in Germany in 2022 compared to the year under review. Impulses for a positive premium development are expected as the mobility level further normalises. To the extent the forecast economic recoveries materialise, demand is expected to increase in all industrial insurance sectors.

Outlook for the business as a whole

The 2021 financial year continued to be marked by the consequences of the COVID-19 pandemic and natural disasters. In our view, 2022 will be characterised by high levels of uncertainty, in particular due to the current crisis in Ukraine. In addition, the expected high inflation and the ongoing COVID-19 crisis have the potential to exert a negative impact on our performance.

We expect continued satisfactory rates in the specialty segments and, as a result, further growth in premiums. Regarding the frequency loss ratio, we expect an improvement.

The development of results is significantly influenced by large losses. As long as the large loss situation in the 2022 financial year remains within the range of expectations, we anticipate a further improvement in the underwriting result.

The innovative capability and service orientation are becoming increasingly important in the insurance industry. We are implementing numerous projects to shape the digital transformation, harmonising and optimising the process and IT landscape worldwide. Despite the necessity for corresponding investments, we expect the gross expense ratio to remain constant.

As a result of the assumptions made, we expect an improved net combined ratio before equalisation reserve.

Due to the crisis in Ukraine and inflationary developments, we expect high uncertainties on the capital markets. Adjustment of the central banks' interest rate policy could influence the current investment income on the one hand and have an impact on the price development on the other hand. In addition, we continue to pursue investments in high-potential alternative assets. Overall, we expect an investment income result in 2022 slightly above the level of 2021.

Due to the aforementioned developments, we expect an improved overall result in 2022, which is due in particular to the normalised claims experience.

Report on relations with affiliated companies

The report on relations with affiliated companies to be prepared by the management according to section 312 of the German Stock Corporation Act (AktG), stated that, considering the circumstances known at the time when the legal transactions were contracted, HGS received appropriate consideration for each legal transaction with an affiliated company. No measures subject to reporting obligations were undertaken in the year under review.

Classes and types of insurance operated

Direct insurance business

Casualty insurance (not including casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor insurance

Fire insurance

Comprehensive householders insurance

Homeowners' comprehensive reinsurance

Other property insurance

Marine insurance

Aviation insurance

Credit insurance

Surety insurance

Legal protection insurance

Travel assistance insurance

Other insurances

Reinsurance business assumed

Casualty insurance (not including casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor insurance

Fire insurance

Comprehensive householders insurance

Other property insurance

Marine insurance

Aviation insurance

Credit insurance

Surety insurance

Legal protection insurance

Other insurances

Annual Financial Statements

Balance sheet as of 31 December 2021

Assets (in EUR thousand)	31 December 2021				31 December 2020
A. Intangible fixed assets					
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				2,551	4,930
B. Investments					
I. Long-term equity investments in affiliated companies and participations					
1. Shares in affiliated companies		71,122			70,462
2. Shareholdings		2,166			1,171
			73,288		71,633
II. Other investments					
1. Shares, units or shares in investment fund and other non-fixed-income securities securities		31,655			0
2. Bearer bonds and other fixed-income securities		440,854			272,628
3. Other loans					
a) Registered bonds	5,364				4,028
b) Promissory notes and loans	2,527				2,999
		7,891			7,027
4. Deposits with credit institutions		19,236			8,734
5. Other investments		0			21,482
			499,636		309,871
III. Funds withheld by ceding companies			1,353		1,353
				574,277	382,857
J. Receivables					
I. Receivables arising from direct insurance business due from insurance intermediaries			1,013,512		786,956
II. Accounts receivable from reinsurance business			134,489		114,939
Of which due to affiliated companies: EUR 53,250 k (previous year: EUR 67,022 k)					
III. Other receivables			12,616		6,962
Of which due to affiliated companies: EUR 1,808 k (previous year: EUR 1,502 k)				1,160,617	908,857
K. Other assets					
I. Tangible fixed assets and inventories			2,156		1,647
II. Cash at banks			214,455		185,831
				216,611	187,478

Amount carried over				1,954,056	1,484,122
L. Accrued and deferred items					
I. Deferred interest and rents			2,711		1,966
II. Other accrued and deferred items			4,893		1,107
				7,604	3,073
Total assets				**1,961,660**	**1,487,195**

Equity and liabilities (in EUR thousand)	31 December 2021				31 December 2020
A. Equity					
I. Subscribed capital			121,600		121,600
II. Capital reserve			76,147		78,221
III. Retained earnings					
1. Statutory reserve			3,101		3,040
IV. Distributable profit			14,831		11,591
				215,679	214,452
B. Subordinated liabilities				84,000	78,535
C. Technical provisions					
I. Unearned premium reserve					
1. Gross amount		1,142,971			852,647
2. Less: share for business ceded to reinsurers		944,311			702,478
			198,660		150,169
II. Loss and loss adjustment expense reserve					
1. Gross amount		2,998,005			2,331,255
2. Less: share for business ceded to reinsurers		2,746,952			2,134,129
			251,053		197,126
III. Equalisation reserve and similar provisions			62,348		54,032
				512,061	401,327
D. Other provisions					
I. Provisions for pensions and other post-employment benefits			2,091		1,676
II. Provisions for taxes			2,429		1,444
III. Miscellaneous other provisions			26,943		18,888
				31,463	22,008

Amount carried over				843,203	716,322
E. Funds withheld under reinsurance treaties				31,921	10,847
F. Other liabilities					
I. Liabilities from direct insurance business due to intermediaries			97,545		55,530
II. Accounts payable on reinsurance business			973,223		693,910
Of which due to affiliated companies: EUR 882,502 k (previous year: EUR 640,252 k)					
III. Other liabilities			15,768		10,586
Of which taxes: EUR 5,248 k (previous year: EUR 1,860 k) due to affiliated companies: EUR 2,703 k (previous year: EUR 2,369 k)				1,086,536	760,026
Total equity and liabilities				**1,961,660**	**1,487,195**

It is confirmed that the benefit reserve shown on the balance sheet under Item C II of equity and liabilities has been calculated under due consideration of sections 341f and 341g of the German Commercial Code (HGB).

Hannover, 23 March 2022

Wegener, Actuary in Charge

Statement of Income

in EUR thousand	2021 1 January - 31 December			2020 1 January - 31 December
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	2,476,189			2,012,953
b) Premiums ceded to reinsurance	2,275,570			1,842,453
		200,619		170,500
c) Change to the gross premium reserve unearned	-238,087			-224,999
d) Adjustment of reinsurers' share in gross premiums unearned	198,666			186,133
		-39,421		-38,866
			161,198	131,634
2. Other underwriting income for own account			3	18
3. Expenses for insurance claims for own account				
a) Insured event payments				
aa) Gross amount	978,228			807,222
bb) Reinsurers' share	879,013			723,451
		99,215		83,771
b) Changes to the provision for outstanding insured events				
aa) Gross amount	505,569			492,324
bb) Reinsurers' share	465,182			459,502
		40,387		33,822
			139,602	117,593
4. Underwriting expenses for own account				
a) Gross underwriting expenses		650,725		533,113
b) Less: commissions and policyholder participation received for business ceded to reinsurance		691,446		552,789
			-40,721	-19,676
5. Other underwriting expenses for own account			7,884	5,065
6. Subtotal			54,436	28,670
7. Changes in claims equalisation reserve and similar provisions			8,316	19,664

In EUR thousand	2021 1 January - 31 December				2020 1 January - 31 December
Amount carried over				46,120	9,006
8. Underwriting result for own account				46,120	9,006
II. Non-underwriting account					
1. Investment income					
a) Income from other investments					
aa) Income from other capital investments	6,869				6,978
		6,869			6,978
b) Income from reversals of impairment losses		0			285
c) Income from disposal of capital investments		1,176			960
			8,045		8,223
2. Investment expenses					
a) Expenses for the management of capital investments, interest expenses and other expenses for capital investments		865			656
b) Impairment losses on investments of which unscheduled write-downsaccording to section 253(3) Sentence 6 of the German Commercial Code (HGB) EUR 0 k (previous year: EUR 0 k)		2,249			554
c) Losses on disposal of capital investments		655			496
			3,769		1,706
			4,276		6,517
				4,276	6,517
3. Other Income			23,160		27,107
4. Other expenses			68,869		62,842
				-45,709	-35,735
5. Result from ordinary activities				4,687	-20,212
6. Taxes on income and profit				3,461	3,663
7. Net income/net loss for the financial year				1,226	-23,875
8. Retained profit brought forward from previous year				11,591	33,405
9. Withdrawals from capital reserve				2,075	2,061
10. Allocation to the statutory reserve				61	0
Distributable profit				**14,831**	**11,591**

Notes

General information

HDI Global Specialty SE has its registered office at Podbielskistrasse 396, 30659 Hannover, Germany and is registered in the Commercial Register of the Hannover Local Court under No. HRB 211924.

The Company prepares the annual financial statements in accordance with the regulations of the German Commercial Code *(Handelsgesetzbuch; HGB)* under due consideration of the German Stock Corporation Act *(Aktiengesetz; AktG)*, the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz; VAG)* and the Insurance Enterprises Accounting Regulation *(Verordnung über die Rechnungslegung von Versicherungsunternehmen; RechVersV)*.

Where settlements are not yet available at the closing date, estimates of the relevant items are made in the balance sheet and income statement.

Valuation of assets

Intangible fixed assets are valued according to the acquisition cost principle at the lower of amortised cost or fair value in accordance with the cost principle, taking into account depreciation. Depreciation is based on the anticipated useful lives.

Shares in affiliated companies and participating interests are valued according to the acquisition cost principle at the lower of amortised cost or fair value in accordance with the cost principle, taking into account depreciation.

Shares, units or shares in investment funds and other non-fixed-income securities are valued, under due consideration of effects over time, at the lower of amortised costs or fair value. If the securities are permanently used for business operations, they are valued according to the mitigated lowest value principle pursuant to section 341b(1) of the German Commercial Code (HGB) in conjunction with section 253(3) HGB.

Bearer bonds and other fixed-income securities, to the extent they are held as current assets, are valued according to section 341b of the German Commercial Code (HGB) in conjunction with section 253(1), (4) and (5) of the German Commercial Code (HGB) according to the strict lowest value principle at acquisition costs less depreciation to the lower fair value.

Registered bonds and **promissory notes** are recognised at the lower of amortised costs or fair value, taking into account repayments.

Deposits with credit institutions are stated at their nominal value.

Funds withheld by ceding companies are recognised at nominal value according to section 341c of the German Commercial Code (HGB).

Receivables and **other assets** are recognised at their nominal value less repayments made. Allowances are made for default risks. Other assets are recognised at amortised costs and, if appropriate, less depreciation according to the straight-line or declining method. Low-value assets are fully depreciated in the year of acquisition.

Due to the exercise of the option pursuant to section 274(1) sentence 2 of the German Commercial Code (HGB), no **deferred taxes** are recognised in the commercial balance sheet in the event of a resulting asset surplus.

Valuation of equity and liabilities

The **subordinated liabilities** are recognised at their settlement amounts.

The **unearned premium reserves in direct insurance business** are generally determined using the calculation method that is accurate to the day. Parts of the commissions and other acquisition costs are deducted as not transferable in accordance with the tax guidelines. In exceptional cases, the unearned premium reserves in direct insurance business are calculated on a lump-sum basis.

The **unearned premium reserves for assumed reinsurance business** are formed according to the duties of the cedants. Parts of the commissions and other acquisition costs are deducted as not transferable in accordance with the tax guidelines.

The **unearned premium reserves for business ceded to reinsurers** are deducted from the gross unearned premium reserves and are generally determined on a daily basis by reducing the portions non-transferable for tax purposes.

The **loss and loss adjustment expense reserve** consists of the following partial provisions for the direct insurance business:

- The provisions for known insured event claims are generally valued by applying the settlement amount required in accordance with reasonable commercial judgement on the basis of the individual claims.
- The benefit reserve is calculated for each individual annuity according to actuarial principles using appropriate assumptions.
- IBNR reserves for insured events claims incurred but not yet reported by the balance sheet date are determined on a lump-sum basis taking into account past experience.
- Provisions for loss adjustment costs are formed according to section 341g (1) sentence 2 of the German Commercial Code (HGB).

Receivables from recourse, salvage and division agreements are deducted from the loss and loss adjustment expense reserve pursuant to section 26(2) of the Insurance Enterprises Accounting Regulation (RechVersV).

For the assumed reinsurance business, the loss and loss adjustment expense reserve is generally established on the basis of the provisions ceded by the ceding companies.

The reinsurers' shares in the loss and loss adjustment expense reserve are formed for the business ceded to reinsurers in accordance with the contractual agreements.

The **equalisation reserve** and the **reserves similar to the equalisation reserve** are formed pursuant to the provisions of section 341h of the German Commercial Code (HGB) in conjunction with sections 29, 30 of the Insurance Enterprises Accounting Regulation (RechVersV). The equalisation reserve is formed according to the Annex to section 29 of the Insurance Enterprises Accounting Regulation (RechVersV). The calculation of the provision for nuclear installations is based on section 30(2) of the Insurance Enterprises Accounting Regulation (RechVersV). The provision for major risks for the product liability in connection with pharmaceutical risks is determined pursuant to section 30(1) of the Insurance Enterprises Accounting Regulation (RechVersV).

Other technical provisions are formed on the basis of the contractual provisions in individual contracts in the settlement amount required according to reasonable commercial judgement.

Other provisions are generally recognised at the settlement amount required according to reasonable commercial judgement. If provisions have a remaining term of more than one year, they are discounted at the average market interest rate of the past seven years as published by Deutsche Bundesbank for their remaining term.

Pension obligations are recognised at the amount required to settle the obligation based on reasonable commercial judgement. They are discounted at the average interest rate of the past ten years published by Deutsche Bundesbank in accordance with the Provisions Discounting Regulation (Rück-AbzinsVO) at 1.87% with an assumed remaining term of 15 years. The pension provision is calculated using the projected unit credit method. A salary trend of 2.90% and a pension trend of 1.90% were assumed. Fluctuation probabilities were determined separately depending on age and gender. The benefit adjustment due to surplus participation from reinsurance policies was taken into account in the amount of 0.0%. Valuation is based on the withdrawal probabilities of the "2018G Mortality Tables", which were reinforced in line with the risk experience observed within the Talanx Group. Employee-financed pension commitments, the amount of which is determined exclusively by the fair value of a reinsurance claim, are measured pursuant to section 253(1) sentence 3 of the German Commercial Code (HGB). For these commitments, the settlement amount corresponds to the fair value of the actuarial reserve plus surplus participation. For securities-based employee-financed commitments, the settlement amount corresponds to the fair value of the security. In this context, claims under reinsurance policies were netted against the obligations as cover assets eligible for netting. The cover assets are recognised at fair value according to section 253(1) sentence 4 of the German Commercial Code (HGB). They correspond to the actuarial reserve of the insurance contract with the actuarial assumptions of the premium calculation plus the profit shares having been allocated already and, hence, the amortised cost.

Deposits retained on ceded business are valued at the settlement amount.

The **other liabilities** are recognised at their settlement amounts.

Deferred tax liabilities were offset against deferred taxes. Deferred taxes are calculated at a tax rate of 32.63% for differences subject to corporation and trade tax in Germany, while for differences subject to tax abroad the applicable local tax rates there are included in the valuation.

Foreign currency translation

Business transactions posted in foreign currencies are translated into the reporting currency at the exchange rate prevailing on the date of entry. The assets / equity and liabilities shown in the balance sheet are translated into euros at the mean exchange rates on the reporting date. To minimise currency risks, liabilities are congruently covered, to the extent possible, by corresponding asset items in the respective currencies. In currency terms, foreign currency liabilities are combined with matching foreign currency assets to form valuation units pursuant to section 254 of the German Commercial Code (HGB) as a result of offsetting opposing changes in value (portfolio hedges), and the result from the currency translation of these foreign currency holdings is reported independently of the acquisition cost and imparity principles.

Notes to the assets

Development of asset items A, B. I. to B. II.

In EUR thousand	2020	2021						
	Balance sheet amounts as at 31 December	Additions	Disposals	Transfers	Reversals of impairment losses	Write-downs	Currency effects	Balance sheet values as at 31 December
A. Intangible assets								
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	4,930	0	0	0	0	2,379	0	2,551
Total A.	**4,930**	**1**	**0**	**0**	**0**	**2,378**	**0**	**2,551**
B. I. Investments in affiliated companies and participations								
1. Shares in affiliated companies	70,462	660	0	0	0	0	0	71,122
2. Shareholdings	1,171	995	0	0	0	0	0	2,166
3. Total B. I.	**71,633**	**1,655**	**0**	**0**	**0**	**0**	**0**	**73,288**
B. II. Other investments								
1. Shares, units or shares in investment assets and other non-fixed-income securities	0	10,342	169	21,482	0	0	0	31,655
2. Bearer bonds and other fixed-income securities	272,628	324,407	173,778	0	0	2,248	19,845	440,854
3. Other loans								
a) Registered bonds	4,028	5,376	4,040	0	0	0	0	5,364
b) Promissory notes and loans	2,999	0	472	0	0	0	0	2,527
4. Deposits with credit institutions	8,734	92,086	82,256	0	0	0	672	19,236
5. Other investments	21,482	0	0	-21,482	0	0	0	0
6. Total B. II.	**309,871**	**432,211**	**260,715**	**0**	**0**	**2,248**	**20,517**	**499,636**
Total	**386,434**	**433,867**	**260,715**	**0**	**0**	**4,626**	**20,517**	**575,475**

Write-downs on bearer bonds and other fixed-income securities were made in the financial year under review due to an expected ongoing depreciation amounting to EUR 2,248 k. In total, write-downs of EUR 4,916 k were not made, as we assume that they will be recovered over their life cycle. The write-downs not made amount to EUR 4,793 k for bearer bonds, EUR 123 k for shares, units or shares in investment assets and other non-fixed-income securities.

For shares, units or shares in investment assets and other non-fixed-income securities, there are residual payment obligations in the amount of EUR 11,044 k.

Details of shareholdings

Shares in affiliated companies and participating interests are listed below.

List of shareholdings 2021

Name and registered office of the company Amounts in 1,000 currency units each	Amount of the share in capital in %	Currency	Equity (section 266(3) of the German Commercial Code (HGB)) in EUR thousand	Result of the past financial year in EUR thousand
Shares in affiliated companies				
Svedea AB, Stockholm	76.5	SEK	10,875	4,035
Danae Inc, Wilmington**	100	USD	705	0

SEK exchange rate as of 31 December 2021: 10.05600
USD exchange rate as of 31 December 2021: 1.12435

Name and registered office of the company	Amount of the share in capital in %	Currency	Equity (section 266(3) of the German Commercial Code (HGB)) in EUR thousand	Result of the past financial year in EUR thousand
Participating interests				
VOV GmbH, Cologne	35.25	EUR	2,815*	-138*
Amaniki GmbH, Frankfurt am Main	49.9	EUR	25*	-481*
Dunstan AB, Jönköping**	17.14	SEK		

*Values as of 31 December 2020
**New foundation in the 2021 year under review

Fair value declaration pursuant to section 54 of the Insurance Enterprises Accounting Regulation (RechVersV)

Transaction values are used for the shares in affiliated companies and participating interests.

Fair values are used to measure bearer bonds and other fixed-income securities. They are generally based on publicly available prices and redemption prices as of the reporting date.

The fair values of unlisted securities with specified maturities are determined on the basis of interest structure curves, taking into account the credit quality of the respective debtor as well as the currency of the securities.

The deposits with credit institutions are stated at their nominal value.

The fair values of the other investments are valued according to their net asset value.

In EUR thousand		Fair values 31 December 2021
B. I.	**Long-term equity investments in affiliated companies and participations**	
	1. Shares in affiliated companies	71,122
	2. Shareholdings	2,166
B. II.	**Other investments**	
	1. Shares, units or shares in investment assets and other non-fixed-income securities	28,391
	2. Bearer bonds and other fixed-income securities	442,671
	3. Other loans	
	a) Registered bonds	5,351
	b) Promissory notes and loans	2,527
	4. Deposits with credit institutions	19,236
Total		**571,464**

Accrued and deferred items

In EUR thousand	2021	2020
Deferred interest and rents	2,711	1,966
Other accrued and deferred items	4,893	1,107
Total	**7,604**	**3,073**

Deferred taxes

Due to the exercise of the option pursuant to section 274(1) sentence 2 of the German Commercial Code (HGB), no deferred taxes are recognised in the commercial balance sheet in the event of a resulting asset surplus.

Deferred taxes are measured in Germany at a tax rate of about 32.63% and abroad at the respective local tax rate.

Notes to equity and liabilities

Equity

Subscribed capital

The Company's share capital remained unchanged at EUR 121,600 k as of 31 December 2021. It is divided into 95,000,000 no-par value registered shares. The shares may only be transferred with the consent of the Company. The notional value per share is EUR 1.28.

As of the reporting date, HDI Global Specialty Holding GmbH held 100% of the Company's shares.

Capital reserve

The capital reserve pursuant to section 272(2) no. 4 of the German Commercial Code (HGB) amounts to EUR 76,147 k. In the financial year, withdrawals of EUR 2,075 k were made.

Statutory reserve

In the financial year, an amount of EUR 61 k was allocated to the statutory reserve pursuant to section 150(2). Thus, the statutory reserve amounts to EUR 3,101 k.

Subordinated liabilities

The subordinated loans granted by Hannover Rück SE in the previous year were redeemed in the year under review by a subordinated loan granted by HDI Global SE to HGS:

Issue date	Term	Interest rate	Currency	Amount
01 December 2021	30 November 2041	2.34%	EUR	84,000,000

Technical provisions (gross)

In EUR thousand	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	Total		Of which underwriting provisions for outstanding insured events		Of which equalisation reserve and similar provisions	
Direct written insurance business						
Casualty insurance	36,103	29,127	21,427	18,347	92	-
Liability insurance	1,863,540	1,445,802	1,442,592	1,157,859	3,826	2,658
Motor third-party liability insurance	70,188	65,589	35,916	31,138	20,697	25,711
Other motor insurance	152,797	147,450	78,961	74,375	11,740	10,987
Fire and property insurance	987,474	770,531	713,348	532,226	-	-
Of which:						
Fire insurance	724,296	543,382	553,461	385,399	-	-
Comprehensive householders insurance	2,251	4,035	1,908	1,566	-	-
Homeowners' comprehensive reinsurance	5,144	2,726	4,694	2,016		-
Other property insurance	255,783	220,388	153,285	143,245	-	-
Marine and aviation insurance	385,951	287,347	233,558	177,043	4,601	3,154
Credit and collateral insurance	86,270	79,432	29,847	24,627	3,082	1,110
Legal protection insurance	62,806	46,097	41,053	45,034	0	-
Travel assistance insurance	575	524	334	247	0	-
Other insurances	116,561	70,142	64,191	45,868	0	-
Total	3,762,265	2,942,041	2,661,227	2,106,764	44,038	43,620
Reinsurance business assumed	441,059	295,893	336,778	224,491	18,310	10,412
Total insurance business	**4,203,324**	**3,237,934**	**2,998,005**	**2,331,255**	**62,348**	**54,032**

Other provisions

In EUR thousand	2021	2020
Provisions for pensions and other post-employment benefits	2,091	1,676
Provisions for taxes	2,429	1,444
Miscellaneous other provisions	26,943	18,888
Provisions for personnel expenses	7,480	11,345
Provisions for supplier invoices	654	5,971
Other provisions	18,809	1,572
Total	**31,463**	**22,008**

The difference amount pursuant to section 253(6) sentence 1 of the German Commercial Code (HGB) is EUR 294 k (previous year: EUR 326 k).

As of the reporting date, assets with a fair value of EUR 9 k were offset against corresponding liabilities. The acquisition costs amortised according to the lowest value principle and, thus, the fair value within the meaning of section 255(4) sentence 3 of the German Commercial Code (HGB) correspond to the so-called business plan actuarial reserve of the insurance contract plus surplus. The settlement amount of the obligations is EUR 53 k as at the reporting date. In this context, interest income from the cover assets amounting to EUR 299.55 was netted with interest expenses amounting to EUR 1,024.80.

Other liabilities

Other liabilities exclusively comprise liabilities with a remaining term of less than one year.

Notes to the consolidated statement of income

Gross premiums written by region of origin

In EUR thousand	2021 Germany	2021 EU/EEA	2021 Third countries	2020 Germany	2020 EU/EEA	2020 Third countries
Casualty insurance	2,937	21,742	9,519	4,564	21,259	6,865
Liability insurance	54,814	235,519	558,855	31,405	269,709	297,516
Motor third-party liability insurance	9,400	2,342	30,688	10,586	1,400	25,564
Other motor insurance	-	84,985	70,377	-	69,658	81,513
Fire and property insurance	2,085	72,896	604,062	2,172	187,451	448,937
Of which:						
Fire insurance	238	27,315	405,604	620	84,884	359,939
Comprehensive householders insurance	426	286	-	166	4,775	-
Homeowners' comprehensive reinsurance	568	4,409	-	241	4,604	-
Other property insurance	854	40,886	198,458	1,145	93,188	88,998
Marine and aviation insurance	18,899	127,442	150,613	23,063	127,649	78,426
Credit and collateral insurance	-	795	20,698	-	1,070	31,782
Legal protection insurance	-	7,036	24,859	-	8,440	55
Travel assistance insurance	150	497	-	-	782	-
Other insurances	4,728	28,183	56,471	8,209	32,364	13,569
Total	**93,013**	**581,437**	**1,526,142**	**79,999**	**719,782**	**984,227**

Underwriting expenses for own account

In EUR thousand	2021	2020
Gross underwriting expenses	650,725	533,113
Of which acquisition costs	626,737	508,190
Of which administrative expenses	23,988	24,923
Less: commissions and policyholder participation received for business ceded to reinsurance	691,446	552,789
Total	**-40,721**	**-19,676**

Information on insurance class groups, classes of insurance and types of insurance

In EUR thousand/in pieces	2021 Gross premiums written	2021 Gross premiums earned	2021 Net premiums earned	2021 Gross expenses for claims	2021 Gross expenses for insurance operations	2021 Reinsurance balance	2021 Underwriting result for own account	2021 Number of insurance policies concluded for at least one year
Direct insurance business								
Casualty insurance	34,198	30,820	3,088	9,744	10,311	7,990	2,677	18,328
Liability insurance	849,189	736,560	55,866	465,595	206,729	42,218	20,371	346,033
Motor third-party liability insurance	42,431	39,988	2,369	27,572	13,703	-1,991	5,619	211,638
Other motor insurance	155,362	154,547	12,764	88,193	43,688	18,664	3,033	429,181
Fire and property insurance	679,045	659,264	43,778	514,361	204,539	-73,298	6,739	795,645
Of which:								
Fire insurance	433,158	430,985	29,100	385,883	126,609	-89,761	1,410	468,547
Comprehensive householders insurance	712	2,826	411	3,626	229	-1,045	15	12,428
Homeowners' comprehensive reinsurance	4,977	5,235	538	6,545	945	-2,154	-101	3,235
Other property insurance	240,199	220,218	13,729	118,307	76,756	19,662	5,415	311,435
Marine and aviation insurance	296,954	262,467	17,392	139,375	73,054	42,915	5,568	92,878
Credit and collateral insurance	21,494	24,386	1,669	3,596	4,242	14,088	477	116,539
Legal protection insurance	31,895	11,773	-2,715	1,155	14,721	-1,342	-2,791	727,323
Travel assistance insurance	647	683	65	315	215	126	28	790
Other insurances	89,381	63,222	2,695	44,304	24,017	-5,251	145	10,823
Total	2,200,597	1,983,709	136,970	1,294,209	595,218	44,118	41,866	2,748,949
Assumed reinsurance business	275,593	254,394	25,044	189,588	55,506	-2,856	4,255	-
Total insurance business	**2,476,190**	**2,238,103**	**162,014**	**1,483,798**	**650,724**	**41,262**	**46,121**	2,748,949

In EUR thousand/in pieces	2020 Gross premiums written	2020 Gross premiums earned	2020 Net premiums earned	2020 Gross expenses for claims	2020 Gross expenses for insurance operations	2020 Reinsurance balance	2020 Underwriting result for own account	2020 Number of insurance policies concluded for at least one year
Direct insurance business								
Casualty insurance	32,688	25,755	1,604	10,372	10,154	5,126	99	11,939
Liability insurance	598,630	537,982	47,339	392,839	156,627	-18,737	5,071	228,088
Motor third-party liability insurance	37,550	33,878	3,562	16,454	12,098	3,397	-2,516	198,275
Other motor insurance	151,171	149,610	15,481	80,046	41,990	21,058	669	331,339
Fire and property insurance	638,560	558,275	29,750	442,586	183,366	-77,466	5,846	699,544
Of which:								
Fire insurance	445,443	400,268	22,088	327,201	130,060	-66,740	5,978	430,661
Comprehensive householders insurance	4,941	3,263	263	2,638	1,106	-470	-4	26,299
Homeowners' comprehensive reinsurance	4,845	4,176	373	2,633	987	428	128	2,752
Other property insurance	183,331	150,568	7,026	110,114	51,213	-10,684	-256	239,832
Marine and aviation insurance	229,138	195,886	11,647	102,011	56,963	35,243	30	77,774
Credit and collateral insurance	32,852	23,938	747	9,071	6,830	7,752	-246	116,539
Legal protection insurance	8,495	8,391	1,107	12,973	5,463	-8,817	-1,229	6,960
Travel assistance insurance	782	590	48	211	184	153	41	59
Other insurances	54,142	41,296	2,530	55,564	15,490	-26,655	-3,104	10,985
Total	1,784,008	1,575,601	113,815	1,122,127	489,165	-58,946	4,661	1,681,502
Assumed reinsurance business	228,945	212,353	17,819	178,419	43,948	-20,476	4,345	-
Total insurance business	**2,012,953**	**1,787,954**	**131,634**	**1,300,546**	**533,113**	**-79,422**	**9,006**	1,681,502

Investment income

In EUR thousand	2021	2020
1. Income from other investments	6,869	6,978
2. Income from reversals of impairment losses	0	285
3. Gains on disposal of investments	1,176	960
Total	**8,045**	**8,223**

Investment expenses

In EUR thousand	2021	2020
1. Investment management expenses, interest expenses and other investment expenses	865	656
2. Impairment losses on investments	2,249	554
3. Losses on disposal of investments	655	496
Total	**3,769**	**1,706**

Unscheduled depreciation of EUR 2,249 k (previous year: EUR 554 k) was recorded on bearer bonds and other fixed-income securities pursuant to section 253(4) of the German Commercial Code (HGB).

Commissions and other compensation for insurance agents, personnel expenses

In EUR thousand	2021	2020
1. Commissions of any kind of the insurance agents within the meaning of section 92 of the German Commercial Code (HGB) for direct insurance business	537,428	436,242
2. Wages and salaries	58,650	42,081
3. Social security contributions and expenses for employee benefits	8,177	5,777
4. Expenses for retirement benefits	4,667	3,622
5. Total expenses	**608,922**	**487,722**

Other disclosures

Other income and other expenses include exchange rate gains of EUR 15,501 k (previous year: EUR 16,748 k) and exchange rate losses of EUR 7,779 k (previous year: EUR 26,126 k).

Taxes exclusively relate to the result from ordinary business activities.

HGS generally hedges against currency risks by covering currency liabilities with currency-congruent currency assets. This is intended to compensate for exchange rate-induced changes in the value of currency liabilities (underlying transaction) by offsetting changes in the value of currency assets (hedging instrument). The volume amounts to EUR 180,863 k (previous year: EUR 176,458 k). The valuation units are accounted for using the direct booking method, whereby effective changes in the value of the underlying and hedging transactions are being reported in the balance sheet and income statement.

We expect annual rental payments of about EUR 2,516 k (previous year: EUR 2,359 k) from long-term rental agreements for our locations.

As at the reporting date, the Company has obligations of EUR 31,402 k from future legal transactions.

HGS entered into a contract to acquire potential future payment obligations up to an amount of USD 4,000 k for Danae Inc.

The average number of employees in the financial year was 550 (previous year: 397), of which 505 (previous year: 364) were full-time and 45 (previous year: 33) part-time employees.

The total remuneration of the members of the executive body amounted to EUR 2,530 k (previous year: EUR 1,836 k).

Talanx AG, Hannover includes the figures from our annual financial statements in its consolidated financial statements (smallest group of companies). Moreover, our annual financial statements are also included in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover (the largest group of companies). These financial statements are published in the electronic German Federal Gazette. The inclusion of HGS in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G. and Talanx AG exempts the Company from preparing its own consolidated financial statements pursuant to section 291(1) of the German Commercial Code (HGB).

Regarding the auditor's fees, use was made of the exemption provision of section 285 no. 17 of the German Commercial Code (HGB) and the required disclosures are contained in the consolidated financial statements of Talanx AG. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements, the management report and the IFRS reporting package. The quarterly reporting packages prepared in accordance with IFRS were reviewed by an auditor. In addition, audits were performed for the solvency overview as at 31 December 2021 and the migration in connection with the introduction of a new IT application, and agreed upon procedures were implemented.

The company maintains extensive reinsurance relations with companies of the Talanx Group. Reasonable consideration is paid or received for reinsurance cover and all related services received or rendered. Thus, there is no influence on the net assets or results of operations of the Company compared to the use and provision of the described services by or for unrelated parties.

In the year under review, there were no transactions with related parties on terms not customary in the market with a material impact on the assessment of the financial or income situation.

There were no significant legal disputes in the year under review or on the reporting date - apart from proceedings within the scope of normal insurance and reinsurance business.

The executive management proposes that the distributable profit be carried forward to new account.

Supplementary report

Presently, it is not yet possible to estimate the impacts of the armed conflicts launched on the territory of Ukraine in February. Geopolitical crisis situations always lead to uncertainties and stronger volatilities on the capital markets. The capital investments of HGS are hardly affected by the armed conflicts between Russia and Ukraine as there is only a marginal direct exposure to both countries. Since the overall situation is uncertain, a reliable assessment is not possible as to the extent to which investments could be indirectly affected by second-round effects and pending sanctions. However, capital stocks are in a good position to absorb potential second-round effects due to rather moderate trade links of Western companies with Russia and Ukraine and the good fundamental situation of the corporate sector. We would be affected only indirectly by the economic consequences of the crisis and possible economic sanctions.

The tasks and functions of the domestic employees of HGS were spun off to HDI AG as of 01 March 2022. The legal consequence is the transfer of the employees to HDI AG by way of transfer of operations according to section 613a of the German Civil Code (BGB).

There are no other known events of particular importance after the end of the financial year which could have a significant influence on the Company's net assets, financial position and results of operations.

Governing bodies

Executive Directors

Ralph Beutter
Chairman
Managing Director of HDI Global Specialty SE

Thomas Barenthein (from 1 May 2021)
Managing Director of HDI Global Specialty SE

Andreas Bierschenk
Managing Director of HDI Global Specialty SE

Thomas Stöckl
Managing Director of HDI Global Specialty SE

Richard Taylor
Managing Director of HDI Global Specialty SE

Administrative Council

Ulrich Wallin
Chairman
Former Chairman of the Board of Management of Hannover Rück SE

Jens Wohlthat
Deputy Chairman
Member of the Board of Management HDI Global SE

Clemens Jungsthöfel
Member of the Board of Management of Hannover Rück SE

Ralph Beutter
Managing Director of HDI Global Specialty SE

Hannover, 23 March 2022

Ralph Beutter **Thomas Barenthein** **Andreas Bierschenk** **Thomas Stöckl** **Richard Taylor**