Annual Financial Statements

2022

HDI Global Specialty SE

Contents

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.

As of 31 December 2022, HDI Specialty Holding GmbH ("HGSH") 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 were transferred to HDI AG by way of a transfer of operations.

General economic and industry-related conditions

Macroeconomic development

With the less dangerous Omikron variant, a high level of immunisation of the population and the gradual lifting of COVID-related restrictions, the groundwork seemed to have been laid at the beginning of 2022 for the continuation of the post-COVID upswing from the prior year. However, as a result of the Russian war against Ukraine and the resulting explosion in energy and food commodity prices, the economic outlook deteriorated considerably. Slowed by high inflation and tighter monetary policy, and after a very strong growth year in 2021 (+6.2%), the global economy grew only by an anticipated 3.4% year-on-year in 2022.

In Germany, this had a negative impact in particular on the (energy-intensive) industry, with emissions recently still almost 9% below their pre-pandemic level. Supported by extensive fiscal stimuli (including energy subsidies and the "9-euro ticket") as well as high savings due to consumption that did not take place in the pandemic years, private households were able to significantly increase their consumption despite strong price pressure, by an expected 4.4% compared to the prior year – the highest value since the German reunification. In the wake of strong domestic demand, growth in imports exceeded that of exports despite a weaker euro. The gloomier mood among households and companies combined with a sharp rise in interest rates ensured that investment in 2022 once again almost stagnated, with construction investment declining. Also due to the greater dependence on Russian pipeline gas, the supply of which came to an almost complete standstill in summer, German gross domestic product (GDP) growth, at an expected +1.9% year-on-year, lagged behind that of the eurozone as a whole (+3.3%).

In the US, GDP contracted in the first two quarters of 2022, putting the economy in a technical recession in the interim. However, both increases in private consumption and investment (excluding housing) over this period and the robust labour market (+4.8 million new jobs) argued against a broad-based weakness of the US economy last year. Nevertheless, headwinds from high inflation as well as the Fed's continuous tightening of monetary policy from March onwards ensured that growth in 2022, at 2.1%, lagged significantly behind 2021 (+5.9%).

In contrast to the industrialised countries, growth in the emerging and developing countries fell behind the average of recent years in 2022, however the picture here was more patchy. The Eastern European countries, led by the warring parties Russia and Ukraine, brought up the rear, while commodity-exporting countries, e.g. in Latin America, took the lead in rallying global commodity prices. China's growth fell to its second-lowest level in almost 50 years (+3.0%) due to the strict zero-COVID policy that lasted until December and distortions of the real estate market.

Real gross domestic product in % compared to prior year	2022[1]	2021
Germany	+1.9	+2.6
Eurozone	+3.9	+5.3
USA	+2.1	+5.9
China	+3.0	+8.4

1 Preliminary figures, as at 7 February 2023

Strong demand growth in the wake of the post-pandemic recovery, only gradual relaxation of supply chains and the commodity price shock ensured new record inflation in 2022. For example, while the European gas price was below 20 EUR/MWh on average until 2020, it was over 70 EUR/MWh at the end of 2021, even before the outbreak of war, and rose to a peak of 311 EUR/MWh in 2022. Against this backdrop, the inflation rate in the eurozone peaked at 10.7% and averaged 8.4% in 2022 – the highest value since the beginning of monetary union. In the US in particular, broad-based price pressures due to high demand and rising wages resulted in a peak of 9.1% (annual average 2022: expected 8.0%, 4-decade high).

Against this backdrop, the Fed and the ECB, along with many other central banks around the globe, also made a monetary policy turnaround in 2022. The former raised its prime rate from 0.00-0.25% to 4.25-4.50% at a pace unparalleled since the 1980s. The ECB, in turn, ended the phase of negative prime rates that had lasted since 2014 and raised the deposit rate from -0.50% to 2.00%. For the first time since 2011, commercial banks are receiving a positive interest rate on their deposits at the central bank.

Capital markets

The international stock markets reacted to the outbreak of war with considerable price losses in February/March and were unable to recover the initial losses in the course of the year (DAX -12.4%; EURO STOXX -14.5%; S&P 500 -19.7%). Emerging markets performed even worse (MSCI EM -21.8%), with heterogeneous regional developments as a result of the direct and indirect effects of the Ukraine war and the COVID policy in China (MSCI China -22.1%; MSCI Latin America -0.1%; MSCI Eastern Europe -82.9%, all in US dollars).

Apart from regional developments, the main reason for the weak performance of the stock markets was the central banks' abandonment of their relaxed monetary policy, which also caused strong price losses on the bond markets. The yield on 10-year US Treasuries rose from 1.51% to 4.24% at its peak, and was 3.87% at the end of the year. The yield on German government bonds of the same maturity left negative territory in 2022 and climbed from -0.18% to 2.57%. In line with the prices of many other commodities, the price of oil (Brent) rose sharply at its peak from USD 78 to USD 128 per barrel, but at the end of the year it was only about 10% higher than at the beginning of the year, at USD 86 per barrel. The euro temporarily fell below parity with the US dollar for the first time in 20 years and lost 5.9% to USD 1.07 over the year.

International insurance markets

International property/casualty insurance has shown resilience in the face of the macroeconomic environment. Despite high global inflation, overall positive real premium growth was recorded in 2022. The industrial business in particular was able to benefit from a further hardening of the market. Growth in the emerging markets was higher than in the developed insurance markets.

Of the developed insurance markets, Asia-Pacific showed the strongest growth. North America also saw positive real premium growth. In Europe, however, premium trends were below the inflation rate. The positive real premium growth in emerging markets was driven by growth in both China and Latin America.

Losses caused by natural disasters in the year under review were below the prior year's level, but were again above the ten-year average to date. More than a third of the total losses and around half of the insured losses worldwide were caused by hurricane "Ian" at the end of September in the USA and Cuba. Europe was affected by winter storms "Ylenia", "Zeynep" and "Antonia" as well as hailstorms in France and neighbouring Spain in 2022.

International non-life reinsurance also recorded positive premium growth in the year under review. In view of the increased macroeconomic uncertainty, the continuing trend towards higher single losses from natural disasters continued, and in particular the development of inflation, and the trend towards price increases in the course of the contract renewal rounds during the year, which had already been observed in prior years.

German insurance industry

In property/casualty insurance, the German insurance industry experienced an increased growth in premiums in 2022 compared to the prior year. The overall development was characterised by inflation-related premium and sum adjustments. The motor vehicle business recorded a nominal increase in premiums, but was characterised by fewer new registrations and conversions compared to the prior year.

Overall, claims payments were below the level of the prior year. The natural hazard balance of German property insurers in 2022 was characterised by fewer extreme events than the prior year, and was thus only marginally above the long-term average. The most severe natural hazards were caused by the winter storms “Ylenia”, “Zeynep” and “Antonia” at the beginning of the year.

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 2022.

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. For the area of residual debt insurance, a commission cap was enshrined in law with the Crowdfunding Accompanying Act, which came into force on 1 July 2022.

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 of which HDI Global Specialty SE is a part, has to ensure that all Group companies committed to money laundering prevention implement defined minimum standards. 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 is being implemented to ensure the exchange of information inside the Group. The overall risk of the Group being misused for money laundering and terrorist financing is rated as low.

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 in the companies of the HDI Group. 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 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. In order 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 2022 financial year, the increase in gross premiums written exceeded 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. Overall, we are satisfied with the course of the financial year.

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

Currency (EUR 1 =)	31 December 2022	31 December 2021
Australian dollar	1.57102	1.55960
British pound	0.88722	0.83931
Canadian dollar	1.44486	1.44909
Norwegian krone	10.51740	9.95960
Swedish krone	11.11180	10.23510
US dollar	1.06750	1.13435

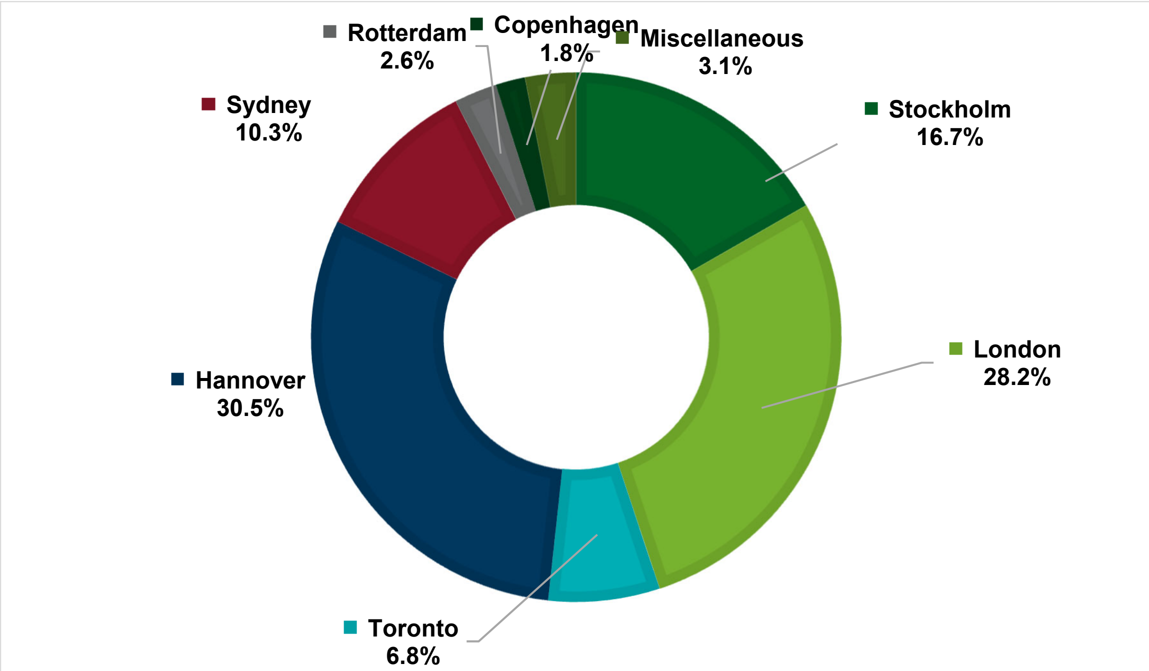
The gross premium volume in the financial year amounts to EUR 3,135.9 million and, at 26.6%, is clearly above the level of the prior year (EUR 2,476.2 million). At EUR 2,705.6 million (previous year: EUR 2,200.6 million), the direct insurance business continued to account for the majority of this. To supplement our business we also assumed reinsurance business to a moderate extent. For the assumed reinsurance business we recorded gross premiums amounting to EUR 430.3 million (previous year: EUR 275.6 million).

Thanks to strong domestic growth, the share of business operated by the international branches fell to 69.5% (prior year: 74.2%). The latter generated an absolute premium volume of EUR 2,178.7 million (previous year: EUR 1,837.0 million). They therefore continue to represent a decisive share of the gross premium income, and thus reflect the international orientation of the Company.

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 development of gross premiums by branch offices is shown in the following table.

Premiums per branch office in million EUR	31 December 2022	31 December 2021
Hannover	957.2	639.2
London	885.0	730.5
Stockholm	525.0	469.3
Sydney	323.5	280.4
Toronto	213.0	170.0
Rotterdam	82.8	64.9
Copenhagen	55.6	42.8
Brussels	38.1	34.9
Milan	36.2	30.6

Gross premiums by branches



As a result of the reorganisation of the specialty business initiated already in prior years, our Company reinsured the majority of the business within the HDI Group. Furthermore, in the year under review, we continued to cede a large part of our business to the Hannover Re Group. In order to optimally manage our risks, we also use external reinsurance to a minor extent. The gross premiums earned amount to EUR 2,849.5 million (previous year: EUR 2,238.1 million) and the premiums earned for own account amount to EUR 239.8 million (previous year: EUR 161.2 million).

The balance sheet loss ratio (gross) fell significantly during the financial year to 63.6% (previous year: 66.3%). The drop in loss ratio results from the reduced gross loss burden and the improved quality of business in the year under review.

In this financial year, a run-off result of EUR -134.5 million (gross) and EUR -20.0 million (net) was achieved. Major drivers were losses in the third-party liability line.

The gross expenses for insured events amount to EUR 1,813.5 million (previous year: EUR 1,483.8 million).

Gross underwriting expenses increased rising in line with expectations and approximately proportionally to the business volume, and amounted to EUR 830.4 million (previous year: EUR 650.7 million) or 29.1% (previous year: 29.1%).

The combined ratio (gross) stands at 92.7% (previous year: 95.4%).

In accordance with the statutory regulations, we allocated an amount of EUR 23.8 million (previous year: EUR 8.3 million) to the equalisation reserve and similar provisions. Hence, the carrying amount of the equalisation reserve and similar provisions amounts to EUR 86.2 million (previous year: EUR 62.3 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 64.5 million (previous year: EUR 46.1 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	2022	2021
Gross premiums written	991.3	849.2
Loss ratio (%)	70.9	63.2
Underwriting result (for own account)	34.3	20.4

The premium volume in **liability insurance** amounts to EUR 991.3 million (previous year: EUR 849.2 million). With a premium volume of about 36.6% of our premium income in direct written business, this line of business again represented a major business segment in the year under review. The loss ratio in the financial year was 70.9% and thus about 7.7 percentage points above the loss ratio of 63.2% in the prior year. After changes in the equalisation reserve, the underwriting result for own account amounts to EUR 34.3 million (previous year: EUR 20.4 million).

Casualty

in EUR million	2022	2021
Gross premiums written	47.7	34.2
Loss ratio (%)	46.8	31.6
Underwriting result (for own account)	2.5	2.7

In **casualty insurance** we were able to increase the gross premiums by EUR 13.5 million to EUR 47.7 million. The loss ratio significantly increased from 31.6% in the prior year to 46.8% in the financial year. In total, the underwriting profit for own account amounts to EUR 2.5 million (previous year: EUR 2.7 million).

Motor vehicle

In EUR million	2022	2021
Gross premiums written	230.3	197.8
Loss ratio (%)	66.7	59.5
Underwriting result (for own account)	1.7	8.7

In **motor insurance**, the gross premiums amount to EUR 230.3 million (previous year: EUR 197.8 million). The loss ratio has increased in the year under review to 66.7% (previous year: 59.5%). The allocation to the equalisation reserve for the financial year amounts to EUR 1.0 million (liquidated previous year: EUR 4.3 million). In total, the underwriting profit for own account amounts to EUR 1.7 million (previous year: EUR 8.7 million).

Fire and property insurance

in EUR million	2022	2021
Gross premiums written	827.7	679.0
Loss ratio (%)	60.2	78.0
Underwriting result (for own account)	19.7	6.7

With a gross premium income of EUR 827.7 million (previous year: EUR 679.0 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 60.2% in the year under review is significantly lower than the prior year's ratio of 78.0%. After changes in the equalisation reserve in the financial year, the underwriting result for own account amounts to EUR 19.7 million (previous year: EUR 6.7 million).

Marine and aviation insurance

in EUR million	2022	2021
Gross premiums written	295.8	297.0
Loss ratio (%)	61.1	53.1
Underwriting result (for own account)	6.2	5.6

The gross premium volume in **marine and aviation insurance** was reduced in the year under review by EUR 1.2 million to EUR 295.8 million in this financial year. The increase resulted from an expansion of our business activities. The loss ratio increased during the financial year to 61.1% (previous year: 53.1%). The underwriting result for own account, under consideration of the equalisation reserve, amounts to EUR 6.2 million (previous year: EUR 5.6 million).

Credit and collateral insurance

in EUR million	2022	2021
Gross premiums written	59.4	21.5
Loss ratio (%)	43.0	14.7
Underwriting result (for own account)	2.5	0.5

Credit and collateral insurance posted gross premiums written of EUR 59.4 million (previous year: EUR 21.5 million). The loss ratio increased significantly from 14.7% to 43.0%. In total and after changes in the equalisation reserve, the underwriting profit for own account amounts to EUR 2.5 million (previous year: EUR 0.5 million).

Legal protection insurance

in EUR million	2022	2021
Gross premiums written	86.9	31.9
Loss ratio (%)	41.5	9,8
Underwriting result (for own account)	-0.7	-2.8

In the year under review, business in **legal protection insurance** increased by EUR 55.0 million to EUR 86.9 million (previous year: EUR 31.9 million). After a very low loss ratio the prior year, the loss ratio increased significantly to 41.5% (previous year: 9.8%). In total, the underwriting loss for own account amounts to EUR 0.7 million (previous year: loss EUR 2.8 million).

Other insurance

in EUR million	2022	2021
Gross premiums written	166.4	90.0
Loss ratio (%)	59.1	69.8
Underwriting result (for own account)	4.0	0.2

Under **other insurance** we booked gross premiums of EUR 166.4 million (previous year: EUR 90.0 million). Other insurance includes gross premiums written of EUR 4.4 million (previous year: EUR 0.6 million) from the travel assistance insurance. We concluded the financial year with a loss ratio of 59.1% (previous year: 69.8%) for other insurance. In total, the underwriting profit for own account amounts to EUR 4.0 million (previous year: profit EUR 0.2 million).

Reinsurance business assumed

in EUR million	2022	2021
Gross premiums written	430.3	275.6
Loss ratio (%)	62.0	74.5
Underwriting result (for own account)	-5.6	4.3

We conduct reinsurance business primarily in the third-party liability, marine and aviation, legal protection, fire and property insurance, and other insurance lines. In these lines we wrote gross premiums of EUR 198.3 million, EUR 94.9 million, EUR 26.0 million, EUR 72.8 million, and EUR 29.9 million. In total, we achieved gross premiums of EUR 430.3 million (previous year: EUR 275.6 million), and hence expanded our reinsurance business. The increase primarily resulted from taking over business from HDI Global SE. The loss ratio in the year under review amounted to 62.0% (previous year: 74.5%). The underwriting result for own account was EUR -5.6 million (previous year: EUR 4.3 million).

The improvement in the loss ratio, as well as the growth of EUR 154.7 million, led to an allocation to the equalisation reserve of EUR 24.7 million (previous year: EUR 7.9 million), which contributed significantly to the underwriting result for own account.

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. In this context, Hannover Rück SE no longer assumes a significant portion of the business ceded to Group companies, but HDI Reinsurance (Ireland) SE does.

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 2,832.8 million (previous year: EUR 2,275.6 million). The retention ratio of 9.67% is therefore slightly above prior year's level (8.1%).

From the reinsurers' perspective, the result from business ceded to reinsurers amounted to EUR 108.5 million in the financial year (previous year: EUR 41.2 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 alternative investments. 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.

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 equity investments increased to a total of EUR 103,637 k (previous year: EUR 73,288 k) in the financial year. The shares in affiliated companies amounted to EUR 101,548 k (previous year: EUR 71,122 k) and long-term equity investments were EUR 2,089 k (previous year: EUR 2,166 k).

HGS's portfolio of other investments at carrying amounts increased in line with our expectations in the year under review from EUR 499,636 k to EUR 618,602 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 90.3% (previous year: 88.2%). The share of other loans fell slightly to 0.7% (previous year: 1.6%). Deposits with credit institutions amounted to 1.6% (previous year: 3.8%) as of the reporting date. The stocks, shares or equity in investment funds increased during the financial year to 7.4% (previous year: 6.4%).

The quality of the other investments, measured by rating classes, improved slightly compared to the prior year. The majority is invested in AAA-rated investments, which account for about 54% (previous year: about 45%) of the other investments. The share of AA-rated investments remains constant at around 18% (previous year: around 18%). Individual securities with an A rating account for about 18% (previous year: about 24%) of our portfolio. The share of other investments with a BBB rating is around 3% (previous year: 7%). Investments without a rating remained almost unchanged, accounting for around 7% (previous year: 6%) and are mainly attributable to funds that do not have a rating. Consequently, the confidence level of our portfolio as a whole remains similar to the prior year.

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

The valuation reserves in the other investments amounted to EUR -21,843 k at the reporting date (previous year: EUR -231 k). The hidden reserves amount to EUR 6,403 k (previous year: EUR 4,684 k). Of this amount, EUR 5,698 k (previous year: EUR 3,440 k) is attributable to stocks, shares or equity in investment funds and other non-fixed-income securities and EUR 705 k (previous year: EUR 1,244 k) to bearer bonds and other fixed-interest securities. As of the reporting date, there were hidden liabilities of EUR 28,246 k (previous year: EUR 4,915 k) in other investments. Of this amount, EUR 28,082 k (previous year: EUR 4,793 k) is attributable to bearer bonds and other fixed-income securities and EUR 164 k (previous year: EUR 109 k) to stocks, shares or equity in investment funds and other non-fixed-income securities.

Investment income

The current investment income in the year under review amounts to EUR 8,410 k (previous year: EUR 6,869 k) and is attributable in the amount of EUR 8,058 k (previous year: EUR 6,869 k) to current interest income from bearer bonds and other fixed-income securities.

The result from the disposal of investments amounts to EUR -1,333 k (previous year: EUR 520 k) and consists of gains on disposal of investments amounting to EUR 547 k (previous year: EUR 1,175 k) and losses on disposal of investments amounting to EUR 1,880 k (previous year: EUR 655 k).

Impairment losses on investments amount to EUR 1,078 k (previous year: EUR 2,249 k) and relate to bearer bonds and other fixed-income securities, which were valued according to the strict lowest value principle.

The management of investments caused expenses of EUR 1,148 k in the financial year (previous year: EUR 1,259 k). The total investment income amounts to EUR 4,850 k (previous year: EUR 3,881 k).

Other income/expenses

The other income/expenses consists of other income of EUR 33,723 k (previous year: EUR 23,160 k) and other expenses of EUR 110,258 k (previous year: EUR 68,869 k), resulting in a loss on balance of EUR 76,535 k (previous year: loss of EUR 45,709 k) as other income/expenses.

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

Other expenses includes expenses from exchange rate changes, which is more than compensated for by income. Moreover, the other expenses consists largely of expenses for IT, personnel expenses and depreciation.

Overall result

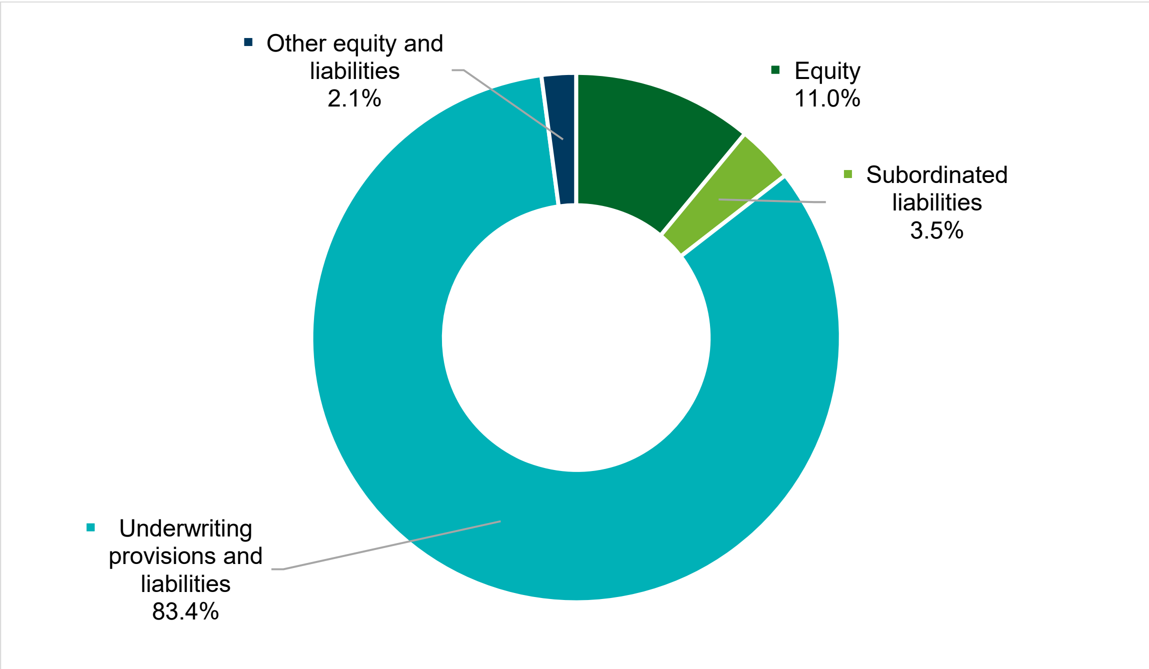
The financial year was concluded with a net loss of EUR 14,980 k (previous year: net income EUR 1,226 k). An amount of EUR 2,075 k was withdrawn from the capital reserve according to section 272(2) no. 4 of the German Commercial Code (HGB). The distributable profit amounts to EUR 1,925 k (previous year: EUR 14,831 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.

In the financial year, EUR 60,000 k was transferred to the capital reserve. The equity ratio thus increased slightly. At 11.0% of the balance sheet total (previous year: 11.0%), equity continues to rank alongside reinsurance as one of our most important sources 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 3.5% (previous year: 4.3%) 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 83.4% (prior year: 82.3%) is slightly above the prior year's level.

Capital structure on the reporting date



Branches

In the 2022 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 HDI 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. As part of the "One HDI" project, the management of HGS spun off all functions of the German employees to HDI AG on 1 March 2022. The transfer of German employees to HDI AG led to a reduction in the number of employees within HGS in the 2022 financial year.

IT

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

Employees

As of 31 December 2022, the Company had 466 employees (previous year: 593).

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.

To emphasise the importance of leadership for the success of the Company and for attracting and retaining employees, we have worked with a provider specialising in leadership development, developing a leadership development programme and rolling it out across the Company.

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 have been 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 German employees of HDI Global Specialty SE were spun off to HDI AG as of 1 March 2022. The legal consequence was 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 the customers.

Personnel secondment

Employee mobility remained highly important in 2022. 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 Talanx Group and division targets.

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[1] Talanx Group Sustainability Report and online at www.talanx.com/nachhaltigkeit.

[1] Pursuant to section 317(2) sentence 4 of the German Commercial Code (HGB), the report section on sustainability is excluded from review during the audit of the annual financial statements and management report.

Risk report

Our ultimate goal

HDI Global SE indirectly holds 100% of the shares in HDI Global Specialty SE. The Company is an integral part of the Industrial Lines division and the specialty insurance unit of the Talanx Group, and has a focus on writing direct and facultative individual risk and agency business. As a dedicated specialty insurer, HGS offers tailor-made insurance solutions in selected specialty and niche markets, which are mainly distributed via brokers and managing general agencies or underwriting agents. The product portfolio of HGS includes Aviation, Space, Marine, Riding and Show Horse, Cyber, Livestock, agricultural, Legal Expenses, Manager's Liability, M&A, Events, Art, Securities, Kidnap & Ransom lines of business, Crisis, Product Recall, Political Violence, Credit, Accident & Health, Guarantee and Mining insurance. The Company's network of branches in Australia (incl. New Zealand), Belgium, Denmark, the United Kingdom, Italy, Canada, the Netherlands and Sweden allows HGS to remain close to its customers and sales partners in the respective markets while maintaining a global orientation. To be able to take advantage of business opportunities whenever they arise, the Company aims to maintain adequate capital resources at all times. Moreover, the Company follows the risk-adjusted return requirements. Furthermore, the 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. A large proportion of the business is reinsured within the Talanx Group.

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 limit and threshold value system, the risk and capital management guidelines and the guidelines for managing operational and reputational risks, the underwriting guidelines, the capital investment guideline, and other relevant guidelines at least once per year. This ensures that our Risk Management System is up to date.

Significant external factors influencing risk management in the past financial year

Growth in business

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 further hardening markets. In both agency and individual risk business, further new business relationships were established and existing connections continued to expand. Growth was supported by strengthening the existing workforce, improving recognition of the HDI brand, expanding the underwriting teams, and through the sales capacity of the HGS branches close to the market. Through its worldwide network of branches and representative offices, HDI Global SE and HDI Global Network AG support the worldwide distribution of HGS products and services, and consequently open up access to the respective local market. The previous acquisition of Hannover Rück SE equity shares by HDI Global SE not only resulted in a reduction in complexity, but also in synergy effects which were further expanded in the past financial year. The establishment of HDI AG, a standardised employee-management company at the German location, also enhances this potential and lays the foundations for the realisation of further optimisation of central functions in future.

In the past financial year, HGS was able to recruit and integrate new employees on an ongoing basis, and as a result continued to develop its organisational structure and procedures. This reflects the optimisation potential that comes with the growth of the Company and enables the exploitation of the opportunities that arise as a result. Existing initiatives to modernise the IT landscape were further advanced, in particular the expansion of a data warehouse and introduction of an inventory system. In addition, the first steps were taken to integrate HGS into the IT infrastructure of the Primary Insurance Group. The ongoing improvement of IT outsourcing management is of particular importance for HGS. To this end, an IT management unit was set up, which is responsible for monitoring the outsourced IT functions, both within the Group and to external partners (operations and application development). In addition, activities have been undertaken relating to VAIT requirements and compliance. The constant process of change within HGS not only enables continuous further development, but also goes hand in hand with an increased operational risk, which has been intensified by these external influences amongst other things, but also by the introduction of the new accounting standard IFRS 17 and regulations.

Impact of the war in Ukraine and COVID-19

The COVID-19 pandemic and the Ukraine-Russia conflict represent significant large loss events for HGS, and have had a corresponding impact on the technical performance in 2022. As regard the effects of the COVID-19 pandemic, particular mention should be made of impact in the Film and Event Cancellation lines; and with regard to the Ukraine-Russia conflict, the Aviation, Political Violence and Marine lines. Particularly in the Aviation line, there is uncertainty about potential loss exposure from the Ukraine-Russia conflict. HGS anticipates a prolonged period of uncertainty, as the courts will have to decide whether cover has been granted. The business operations of HGS and its internal and external outsourcing partners were not only able to continue almost unchanged by working from home during the COVID-19 pandemic, and now within the framework of the “New Work” approach, but also benefited from ongoing automation and process optimisation.

Impact of inflation

In the past financial year, an environment of remarkable inflation was observed in the market. HGS countered this with adjusted assumptions in its pricing and reservation practice. Relevant inflation indices were determined for the actuarial analyses of the individual lines of business, which reflect past inflation in the segments. Depending on requirements, an individual index or a weighted average of different indices can be used. Furthermore, additional inflation effects sometimes not captured in economic indices can be included. Due to the annual renewal of HGS’s main business, inflationary developments have been taken into account in the pricing process on an ongoing basis. Ongoing adjustments of sums insured and premium agreements based on turnover or earnings are common, especially with commercial customers. In this way, inflation is taken into account even if rates remain unchanged.

The usual actuarial provisioning methods based on loss triangles project inflation from the claims experience of previous years into the projected claims payments. In this respect, inflation is implicitly taken into account in the loss reserves as a matter of routine. Multiple analyses during the financial year showed that the projected increase in reserves is relatively low in all relevant scenarios and could be more than offset by the current resilience in reserves.

Reinsurance purchasing

In lines such as Aviation, Art Insurance and Credit, it is necessary to offer customers high capacities. In order to match this capacity with the risk appetite of HGS, external reinsurance capacity is also purchased. The increasing price pressure and capacity shortage can also be observed in the reinsurance markets, and will continue to be a significant influencing factor for HGS in the future, the challenges of which remain to be overcome.

Systemic concentration risks

HGS rather tends to favour moderate sums insured with a large number of policyholders in its underwriting. Various initiatives have been continued under the heading of “derisking”. These include the introduction of software for improved aggregate control, in order to achieve further optimisation of the portfolio. In particular the COVID-19 pandemic and the war in Ukraine highlight that there is potential for man-made catastrophe losses to accumulate across lines of business. HGS continues to balance its portfolio, and reducing US hurricane and Australian natural hazard exposure has been a first step.

Brexit

To counter the consequences of the Brexit process, HGS took a number of measures at an early stage, which resulted in the UK branch being authorised to operate as a third-country branch. Since then, the branch has fallen entirely under the supervisory regime of the PRA and FCA. UK regulation has so far been based on the well-known Solvency II, which has allowed business to be conducted within the previous framework. There has been a change in government and attitude towards Solvency II: plans to reform the supervisory regime for the UK insurance and long-term savings sector have been confirmed. This generates a high degree of uncertainty arises, which HGS is addressing, and HGS is preparing for further changes accordingly, as in previous financial years.

Metatrends: geopolitical tensions, demographics and climate change

Geopolitical tensions such as the war in Ukraine and the changed conditions for global trade led underwriting losses occurring. Higher compliance requirements such as sanctions increased expenses for business operations. Inflation triggered by delivery delays, reduced competition, and also increasing scarcity of raw materials, increased the expenses for underwriting services. Demographic change results in an increasing shortage of labour and higher government spending, which likewise affect one of the major external factors: inflation. The ongoing renewal of the portfolio allows HGS to implement updated inflation expectations in a timely manner. In addition, the increase in interest rates is accompanied by a shortage of capital. HGS is countering the metatrends through further development in the individual areas where the specific challenges have arisen. For example, sanctions are processed in the Compliance Department and inflation in the Underwriting and Actuarial Pricing units. Climate change has already resulted in changes in the risk level due to natural disasters, as well as in reputational and legal risks.

Risk capital

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

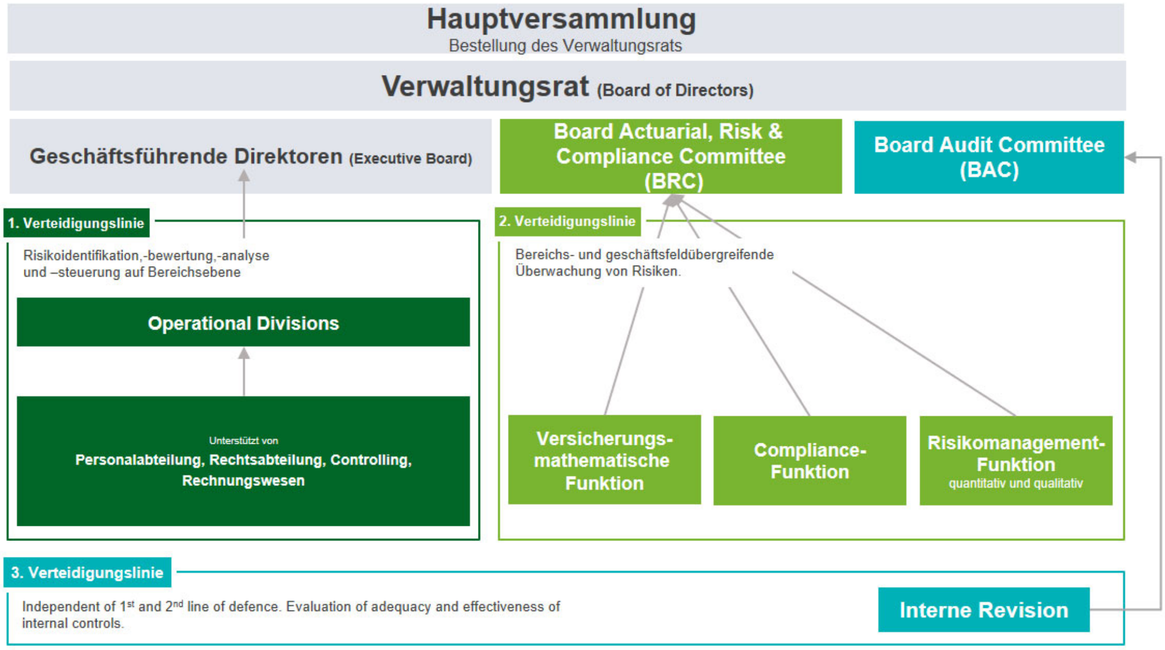
The SIM used by HDI Global Specialty is a stochastic corporate model covering all business fields of HGS. It determines the regulatory and economic risk capital required as value at risk (VaR) of the change in value over a period of one year, and has a confidence level of 99.5%. It takes into account 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 established a Risk Management function and a 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 Management 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 Management, Actuarial and Compliance function. These units are responsible for surveillance. The third line of defence consists of internal auditing, which reports to an audit committee set up for the purpose.



German	English
Hauptversammlung	General Meeting
Bestellung des Verwaltungsrats	Appointment of the Board of Directors
Verwaltungsrat (Board of Directors)	Board of Directors
Geschäftsführende Direktoren (Executive Board)	Executive Board
1. Verteidigungslinie	1. Line of defence
Risikoidenfifikation, - bewertung, -analyse und – steuerung auf Bereichsebene	Risk identification, assessment, analysis and control at the divisional level
Opertional Divisions	Operational Divisions
Unterstütz von Personalabteilung, Rechtsabteilung, Controlling, Rechnungswesen	Supported by: Human Resources Department, Legal Department, Controlling, Accounting
2. Verteidigungslinie	2. Line of defence
Bereichs- und geschäftsfeldübergreifende Überwachung von Risiken	Cross-divisional and cross-business unit monitoring of risks
Versicherungsmathematische Funktion	Actuarial function
Compliance-Funktion	Compliance function
Risikomanagement-Funktion quantitativ und qualitativ	Risk Management function quantitative and qualitative
3. Verteidigungslinie	3. Line of defence
Interne Revision	Internal Audit

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, e.g. in the form of assessments, scenario analyses, review of the ongoing reporting from operational units, 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. To this end we utilise the expertise of our employees, networking of the company divisions via interfaces and working groups or committees, and technical means such as our data processing, inventory management and quotation programmes, as well as our Specialty Internal Model. Risk types for which a quantitative risk measurement is currently not possible or difficult, are only assessed qualitatively, 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. Concrete examples are their underwriting activities or the purchase of services. 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 Management 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. Monitoring is carried out at various control points; here, the regular solvency calculation is to be provided according to the internal model for determining the overall risk profile, with information on this being submitted to the Actuarial, Risk and Compliance Committee. This includes a mandatory deviation analysis and monitoring of compliance with the risk limits. In parallel, the internal model is validated and adapted if necessary.

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. This is implemented within the company by means of immediate internal and intra-Group forwarding of information on all issues that currently represent a hazard to the company or which could do so in future. This includes, among other things, internal and external risk reports, information papers, intranet publications, information rounds, interface meetings, and training and conference opportunities for our employees. Information is exchanged, the risk awareness of the employees is sharpened, and corresponding opportunities are created to identify risk at an early stage and take relevant measures in good time. 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, among other things, with 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 (ORSA).

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 prior 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 insurance 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.

With the support of pricing actuaries, the underwriting departments of HGS are increasingly taking inflation into account as part of the assumptions about future claims development, which is then incorporated into the decision to accept the respective risks. For example, in the third-party liability lines, social inflation is of particular relevance; in the energy line, energy costs and consequently the loss amount are influenced by the rising cost of steel. Sharply rising claims costs following natural disasters, influenced on the one hand by high demand and on the other by the scarcity of supply, are further aspects that have an impact on pricing. Ongoing adjustments of sums insured and premium agreements based on turnover or earnings are common, especially with commercial customers, and take inflation into account even if rates remain unchanged. A dampening effect is also exerted by the agreed liability limits and, in the case of non-proportional covers, by the retention. In specialty lines of business (compared to compulsory motor liability as an example), risk selection and thus the frequency or whether a claim occurs at all also plays a significant role. The HGS book is renewed throughout the year, so that inflationary developments are constantly taken into account in the pricing process.

The underwriting premium risk is the risk that the ultimate loss expenditure of the current underwriting year will be higher than expected. This can be caused by higher single losses, an increased claims frequency or deviating dates of the claims payments. The underwriting premium risk is caused by the fact that the insurance premium turns out to be insufficient to cover the insurer's expenses related to the claims, their processing or loss adjustment and other expenses. The premium risk relates to future claims of policyholders in connection with premiums earned in the future, and includes the risk of incorrect calculations. This risk can occur where contracts cannot be priced actuarially; but also where actuarial pricing is possible, but the data quality in the information provided by the policyholder or cedant (damage, reserves, etc.) is insufficient, or where the quotation models used are no longer up to date. HGS adheres to its high underwriting standards with regard to quality and profitability for new business and renewals and does not conduct business that fails to satisfy the requirements. In addition, HGS is continuously improving its risk-adequate pricing and actuarial analyses such that the level of future earnings is at the centre of all transaction assessments.

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, shareholding, currency, real estate and infrastructure, inflation, 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	8.69	1.1
-50 bp	4.30	0.5
+50 bp	-4.22	-0.5
+100 bp	-8.35	-1.0
+200 bp	-16.38	-2.0

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 the business operated by HGS is reinsured to a major extent, the bad debt risk in reinsurance is of significant importance to us. In line with its role within the Group, HGS cedes underwriting risks predominantly to companies of the Talanx Group. The ratings of the HDI/Talanx Group units are in the A rating range.

Company	S&P Rating	A.M. Best Rating
HRG	AA- (stable)	A+ (stable)
Talanx AG	A+ (stable)	A+ (stable)
HDI Global SE	A+ (stable)	A+ (stable)
HDI Global Network AG	A+ (stable)	A+ (stable)
HDI Reinsurance (Ireland)	n/a	A+ (stable)

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.

The following table shows our total reinsurance recoverables exposure to Group companies and third parties by rating:

Rating	Reinsurance recoverables in EUR million	Figures in %
AAA - A	3,297.43	98.92
< BBB	36.14	1.08

Company Rating	External in EUR million / %	HRG in EUR million / %	HDI Re in EUR million / %
AAA - A	136.20 / 4.09%	2,287.80 / 68.63%	873.43 / 26.20/
< BBB	36.14 / 1.08%	/	/

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. The focus is therefore on risk avoidance and reduction. 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 eight subject areas: 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. HGS has established an Internal Control System and a Business Process Management System. Both set out the minimum requirements for the Company's process organisation and define clear responsibilities. Checks and controls, based on the HGS ICS, support the optimisation and control of risks (e.g. peer reviews, file reviews, power of attorney limits/personal signing authorities or 4/6-eye principle). By continuously optimising and automating our processes, and by standardising procedures, we reduce the risks in this area. The data quality is likewise a critical success factor. For safeguarding and continuous improvement, the HGS data management organisation has initiated various initiatives.

The business interruption risk arises from hazards of a natural or human origin that represent a threat to or disruption of business operations. 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 essential framework conditions have been worked out, plans for the continuation and restoration of business activities have been developed, and also a crisis unit has been set up to serve as a temporary management body in the event of a crisis.

Compliance risks primarily consist of the risk of violations of standards and requirements, where non-compliance can result in lawsuits or official proceedings with a not inconsiderable impairment of the business activities of HGS. Regulatory compliance, compliance with business principles, data protection and also antitrust and competition law compliance were defined as issues of particular relevance. 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. Our increased compliance risk in the Delegated Authority business model is also monitored by a separate department.

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. HGS benefits here from synergy effects and uniform Group standards through the purchase of services within the HDI/Talanx Group. 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. The clear allocations of responsibilities in the Delegated Authority Business underwriting and claims processing, the further development of the organisational structure and procedures, as well as the corresponding guidelines and processes, likewise lead to a reduction in risk. In the area of information technology, HGS is increasingly using the possibilities of the cloud to take advantage of the higher security standards, access to newer software and scalability offered by the providers. In line with the increasing use of the cloud, HGS is building up the IT Management department to adequately manage the outsourcing risk that arises.

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. Further controls at company level include the establishment and announcement of a whistleblower hotline, as well as periodic external audits.

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. In addition, HGS mitigates the personnel risk through recruitment and hiring standards, annual performance appraisals, talent management and succession planning, and uses employee surveys to identify areas for improvement, which are then appropriately addressed.

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. Essential issues for us include e.g. potential losses that could result from non-compliant processing of personal data or from the non-availability of our core systems. The IT risk is tending to increase due to the threat of cyber attacks. This risk is appropriately countered by ongoing improvements introduced across our IT organisation in relation to the system, IT risk management, and governance organisation. 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.

Other risks

In the area of other risks, the emerging risks, strategic risks, reputational risks, liquidity risks and sustainability risks are of significance to us.

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. The group campaign to highlight the "HDI Global and HDI Global Specialty" brand emphasises the "one-stop shop" for industrial and specialty business. As a result, the reputational risk also changes as HGS is increasingly perceived as part of HDI.

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. Pursuant to section 341b of the German Commercial Code (HGB), the regulations for fixed assets are applied to investments which permanently serve business operations. 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.

Sustainability risks, including climate change or environmental, social and governance (ESG) issues, are of strategic importance to HGS as our customer base includes, for instance, carbon-intensive CO_2-based industries. Since it is a meta-risk, it can materialise in all risk categories of HGS. In our operations, the influence of ESG has been demonstrated in the form of Solvency II regulations (governance), supplier codes of conduct, fair compensation, but also compliance with sanctions and licensing regimes. Climate change is a theme of the emerging risks working groups. The strategic and medium-term planning process anticipates the future and considers the impact of ESG-related changes. The reputational risk arises from bad press due to an alleged or actual breach of ESG criteria and may have an impact on the insurance business or the ability to recruit staff. The HDI Group has established a Responsible Underwriting Committee (RUC) and a Responsible Investment Committee (RIC), and HGS follows the recommendations of these bodies. The transition risk is pronounced in the specialised lines of Shipping, Aviation, Energy and Mining, while the financial lines are particularly affected by governance issues. HGS has established initiatives and roles to share developments between branches and collaborate on ESG issues. Continued participation in HDI/TX working groups ensures alignment with group approaches.

Opportunity report

Profitable growth and creation of synergies

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 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.

HGS benefits from synergy effects and uniform Group standards through the purchase of services within the HDI/Talanx Group. By establishing the HR-managing HDI AG for the staff employed at the German locations, the prerequisites have been created for prospective further optimisation potential through the standardisation of processes, bundling of expertise and close cooperation. HDI AG provides HGS with comprehensive services such as the three key functions of risk management, compliance and actuarial function, SE or central functions. The Executive Directors of HGS may exercise a professional right of instruction, for example compliance with the guidelines issued by HGS, vis-à-vis HDI AG. HDI AG will gradually take over the IT services, especially IT infrastructure, for all locations from Hannover Re, and here too they will facilitate further synergies.

Introduction of a new inventory management system (“CIS/SPIN”)

During the past reporting period, HGS has been engaged in the implementation of a new inventory management system and has successfully completed the first phase of the project - the introduction of the software in the Dutch branch. This system will enable us to successfully manage the expected higher number of units and the intended expansion of vertical integration, and achieve a higher degree of automation and a better service level for our customers. In the next phases, the gradual introduction will be rolled out to further branches. In the long term, the company-wide inventory management system also facilitates standardisation of the product definition process and system landscape, homogenisation & automation of the IT infrastructure, centralised data availability and high data quality, and allows the safeguarding of digital business transactions with partners and customers.

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. With 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 analysed during the year under review included: socio-economic inequalities, obesity, climate change liability, supply chain risks, toxic chemicals, pandemics, legal threats/class actions, autonomous machines, climate-related disasters, and critical infrastructure failures. In addition, HGS is involved in the working group at the industrial insurance segment level of the HDI/Talanx Group, which ensures a comprehensive view.

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

At the beginning of 2023, the global economy stands on the brink of recession. The reasons include the war in Ukraine, the reorganisation of energy supplies, and high inflation, which the central banks of most currency areas are combating by tightening their monetary policy. As a result, the economy has already cooled down noticeably. Although price pressures and thus the pressure on central banks to act should ease significantly in the course of the year, this context means that industrialised countries are unlikely to achieve much more than stagnation in 2023, with a difficult winter being followed by a gradual recovery from spring/summer onwards. We trust the emerging and developing countries to grow more strongly than in 2022 with China's departure from its Zero-COVID policy.

In Germany and the eurozone, a mild recession in the winter half-year is unlikely to be avoided - even without involuntary rationing of gas consumption. Signs point to a recovery after the winter, provided that base effects cause a successive decrease in inflation, stabilising the disposable incomes of private households and thus consumption; this combines with state support and above-average wage increases in view of robust labour markets. A recovery of the global economy should also boost investment again in the second half of the year. Nonetheless, we expect energy costs in Europe to remain above pre-war levels and thus have a permanent impact on both companies and private households.

The Fed's significant tightening of monetary policy will noticeably slow economic growth in the US this year. However, we assume that the Fed will end its interest rate cycle in the first half of the year in view of its successes in fighting inflation, meaning the US economy can also be expected to pick up in the further course of the year. The US economy is likely to benefit not only from extensive subsidies in the wake of the Inflation Reduction Act (IRA) passed in 2022, but also from the competitive advantage over European industry due to less significant increases in energy costs.

Regardless, the economies of Europe and the US are walking a fine line in 2023. In our view, the main risk for a deeper recession is that the Fed and the ECB take the fight against inflation too far and create a negative growth dynamic by raising prime rates too much. Possible, more dangerous virus variants or a high number of severe disease outbreaks in China following the departure from the Zero-COVID strategy, with corresponding renewed disruption of global supply chains, could also pose significant risks to the outlook. Last but not least, a further escalation of the war in Ukraine or another flare-up of geopolitical conflicts (especially China/Taiwan/USA) could to push the global economy into a deeper recession. In addition, structural risks like climate change and excessive debt persist, especially in Europe.

Capital markets

Base effects, supply chain easing and weaker aggregate demand in the wake of the developments described are likely to dampen inflation considerably in the course of the year. Against this backdrop, many central banks could end their interest rate cycle in 2023 and cut prime rates again for the first time towards the end of the year. We therefore expect the US prime rate to end 2023 at 4.25%, 0.50 percentage points below its current level. We see the ECB deposit rate at 2.50% (currently: 2.50%). The ECB will also start reducing its bond portfolioin 2023.

After a difficult year for most asset classes in 2022, we expect the international capital markets to stabilise in 2023. The increased yields indicate stronger demand and thus a consolidation of yields on the bond markets at elevated levels. However, we see a risk in the high supply of new government bonds, as the central banks are no longer available as buyers of additional securities after the monetary policy turnaround. If a deep recession is avoided, as we expect, risk premiums for corporate bonds are unlikely to widen. This would also be good news for the stock markets, which we believe have slight upwards potential in 2023.

International insurance industry

In the international property/casualty insurance sector, we expect positive real premium growth during 2023. We expect positive development in both the developed insurance markets and the emerging markets. In the latter, growth is likely to be more dynamic.

For the developed European insurance markets, we expect premium income to increase in 2023 compared to the year under review, however below the multi-year average. 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. For Central and Eastern Europe and for Latin America, we likewise expect positive developments. The strongest growth momentum in the current year is likely to be from Asia, and particularly from China.

Profitability in international property/casualty insurance is expected to recover slightly in 2023 after having been under pressure in 2022. We expect both the actuarial practice and the investment income to improve.

German insurance industry

The macroeconomic environment continues to be shaped by significant risk factors. In particular, the further development of inflation will be decisive for both the national and international insurance markets. Our forecasts are therefore subject to more than the usual uncertainty.

After a challenging year for insurers in 2022, we expect a gradual improvement in the overall situation in 2023. For the German insurance market, we expect positive premium growth slightly above inflation.

In property/casualty insurance, we anticipate increased positive growth in premium income in Germany in 2023 that exceeds the trend. In particular, inflation-related sum and premium adjustments will continue in 2023.

Outlook for the business as a whole

The 2022 financial year was essentially characterised by a further increase in inflation and a significant rise in interest rates. Moreover, the financial year was shaped by the conflict between Russia and Ukraine and its potential impact. We expect that these issues could negatively impact our business development in the 2023 financial year.

We continue to expect satisfactory rates in the specialty segments and consequently further slight growth in premiums. Regarding the frequency loss ratio, we expect a further slight improvement.

The development of results is significantly influenced by large losses. As long as the large loss situation in the 2023 financial year remains within the range of expectations, we anticipate a further moderate 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. Due to the necessity for corresponding investments, we expect a slight increase in the gross expense ratio.

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

Due to the conflict between Russia and Ukraine and the continuing high inflation expectations as well as the way central banks are responding, we expect uncertainties on the capital markets. Further 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 the investment income result in 2023 to be above the level of 2022.

In line with the growth in premiums, a slight increase in costs is also expected.

Due to the aforementioned developments, we expect an improved overall result in 2023, which is due in particular to a declining 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 insurance

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 insurance

Annual Financial Statements

Balance sheet as of 31 December 2022

Assets (in EUR thousand)	31 December 2022				31 December 2021
A. Intangible Fixed Assets					
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				505	2,551
B. Capital investments					
I. Investments in affiliated companies and participations					
1. Shares in affiliated companies		101,548			71,122
2. Loans to affiliated companies		2,978			0
3. Participations		2,089			2,166
			106,615		73,288
II. Other investments					
1. Stocks, shares or equity in investment funds and other non-fixed-income securities Securities		45,471			31,655
2. Bearer bonds and other fixed-income securities		558,590			440,854
3. Other loans					
a) Registered bonds	2,500				5,364
b) Promissory notes and loans	2,106				2,527
		4,606			7,891
4. Deposits with credit institutions		9,934			19,236
			618,602		499,636
III. Funds withheld by ceding companies			24,697		1,353
				749,914	574,277
J. Receivables					
I. Receivables arising from direct insurance business due from insurance intermediaries			1,240,573		1,013,512
II. Accounts receivable from reinsurance business			212,962		134,489
of which due to affiliated companies: EUR 68,104 k (previous year: EUR 53,250 k)					
III. Other receivables			20,601		12,616
of which due to affiliated companies: EUR 4,889 k (previous year: EUR 1,808 k)					
				1,474,136	1,160,617
K. Other assets					
I. Tangible fixed assets and inventories			1,957		2,156

Amount carried over				2,226,512	1,954,056
II. Cash at banks			129,047		214,455
				131,004	216,611
L. Accrued and deferred items					
I. Deferred interest and rents			3,445		2,711
II. Other accrued and deferred items			7,796		4,893
				11,241	7,604
Total assets				**2,366,800**	**1,961,660**

Equity and liabilities (in EUR thousand)	31 December 2022			31 December 2021
A. Equity				
I. Subscribed capital		121,600		121,600
II. Capital reserve		134,072		76,147
III. Retained earnings				
1. Statutory reserve		3,101		3,101
IV. Distributable profit		1,925		14,831
			260,698	215,679
B. Subordinated liabilities			84,000	84,000
C. Technical provisions				
I. Unearned premium reserve				
1. Gross amount	1,431,176			1,142,971
2. less: Share for insurance business ceded to reinsurers	1,169,681			944,311
		261,496		198,660
II. Loss and loss adjustment expense reserve				
1. Gross amount	3,637,754			2,998,005
2. less: Share for business ceded to reinsurers	3,318,384			2,746,952
		319,370		251,053
III. Equalisation reserve and similar provisions		86,157		62,348
			667,022	512,061
D. Other provisions				
I. Provisions for pensions and other post-employment benefits		85		2,091
II. Provisions for taxes		789		2,429
III. Miscellaneous other provisions		27,489		26,943
			28,363	31,463

Amount carried over				1,040,083	843,203
E. Funds withheld from business ceded to reinsurance				67,282	31,921
F. Other liabilities					
I. Liabilities from direct insurance business due to intermediaries			114,145		97,545
II. Accounts payable on reinsurance business			1,124,599		973,223
of which due to affiliated companies: EUR 999,957 k (previous year: EUR 882,502 k)					
III. Other liabilities			20,692		15,768
of which taxes: EUR 907 k (previous year: EUR 5,248 k) due to affiliated companies: EUR 4,127 k (previous year: EUR 2,703 k)				1,259,436	1,086,536
Total equity and liabilities				**2,366,800**	**1,961,660**

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, 27 February 2023

Wegener, Actuary in Charge

Statement of income

in EUR thousand	2022 1 January - 31 December			2021 1 January - 31 December
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	3,135,943			2,476,189
b) Premiums ceded to reinsurance	2,832,778			2,275,570
		303,165		200,619
c) Change to the gross premium reserve unearned	-286,407			-238,087
d) Adjustment of reinsurers' share in gross premiums unearned	222,997			198,666
		-63,410		-39,421
			239,755	161,198
2. Other underwriting income for own account			8	3
3. Expenses for insurance claims for own account				
a) Insured event payments				
aa) Gross amount	1,215,992			978,228
bb) Reinsurers' share	1,095,516			879,013
		120,476		99,215
b) Changes to the loss and loss adjustment expense reserve				
aa) Gross amount	597,483			505,569
bb) Reinsurers' share	531,173			465,182
		66,310		40,387
			186,786	139,602
4. Underwriting expenses for own account				
a) Gross underwriting expenses		830,448		650,725
b) less: commissions and policyholder participation received for business ceded to reinsurance		874,597		691,446
			-44,149	-40,721
5. Other underwriting expenses for own account			8,860	7,884
6. Subtotal			88,265	54,436
7. Changes in claims equalisation reserve and similar provisions			23,809	8,316

Amount carried over			64,456	46,120
8. Underwriting result for own account			64,456	46,120

in EUR thousand	**2022 1 January - 31 December**				**2021 1 January - 31 December**
II. Non-underwriting account					
1. Investment income					
a) Income from long-term equity investments		170			
b) Income from other investments					
bb) Income from other capital investments	8,240				6,869
		8,240			6,869
c) Income from disposal of capital investments		547			1,176
			8,956		8,045
2. Investment expenses					
a) Expenses for the management of capital investments, interest expenses and other expenses for capital investments		1,148			865
b) Impairment losses on investments, of which unscheduled depreciations according to section 253(3) sentence 6 of the German Commercial Code (HGB) EUR 0 k (previous year: EUR 0 k)		1,078			2,249
c) Losses on disposal of capital investments		1,880			655
			4,106		3,769
			4,850		4,276
				4,850	4,276
3. Other Income			33,723		23,160
4. Other expenses			110,258		68,869
				-76,535	-45,709
5. Result from ordinary activities				-7,228	4,687
6. Taxes on income and profit				7,752	3,461
7. Net income/net loss for the financial year				-14,980	1,226
8. Retained profit brought forward from prior year				14,830	11,591
9. Withdrawals from capital reserve				2,075	2,075
10. Allocation to the statutory reserve				0	61
Distributable profit				**1,925**	**14,831**

Notes

General information

HDI Global Specialty SE has its registered office at HDI Platz 1, 30659 Hannover, Germany and is registered in the Commercial Register of 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 of 4 to 5 years.

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. No depreciation was recorded during the current financial year.

Loans to affiliated companies are valued at amortised cost.

Stocks, shares or equity 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 para. 1 of the German Commercial Code (HGB) in conjunction with Section 253 para. 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. If an allocation to fixed assets has been made, the valuation is carried out according to the moderate lowest value principle.

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).

Accrued and deferred items are stated at their nominal value.

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 single losses.
- 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 1.79% with an assumed remaining term of 15 years. The pension provision is calculated using the projected unit credit method. A salary trend of 3.50% and a pension trend of 2.34% 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.

Funds withheld under reinsurance treaties 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	2021	2022						
	Carrying amounts as at 31 December	Additions	Disposals	Transfers	Reversals of impair-ment losses	Depre-ciations	Currency effects	Carrying amounts as at 31 December
A. Intangible assets								
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	2,551	0	0	0	0	2,046	0	505
Total A.	**2,551**	**0**	**0**	**0**	**0**	**2,046**	**0**	**505**
B. I. Investments in affiliated companies and participations								
1. Shares in affiliated companies	71,122	33,203	0	-2,810	0	0	33	101,548
2. Loans to affiliated companies	0	0	0	2,810	168	0	0	2,978
3. Participations	2,166	0	0	0	0	0	-77	2,089
4. Total B. I.	**73,288**	**33,203**	**0**	**0**	**168**	**0**	**-44**	**106,615**
B. II. Other investments								
1. Stocks, shares or equity in investment funds and other non-fixed-income securities	31,655	14,217	401	0	0	0	0	45,471
2. Bearer bonds and other fixed-income securities	440,854	512,331	375,210	0	0	1,078	-18,306	558,591
3. Other loans								
a) Registered bonds	5,364	2,500	5,364	0	0	0	0	2,500
b) Promissory notes and loans	2,527	0	421	0	0	0	0	2,106
4. Deposits with credit institutions	19,236	138,968	148,397	0	0	0	128	9,935
5. Total B. II.	**499,636**	**668,016**	**529,793**	**0**	**0**	**1,078**	**-18,178**	**618,603**
Total	**575,475**	**701,219**	**529,793**	**0**	**168**	**3,124**	**-18,222**	**725,723**

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 1,078 k. In total, depreciations of EUR 28,246 k were not made, as we assume that they will be recovered over their life cycle. The full total of write-downs not made relates to bearer bonds.

Regarding stocks, shares or equity in investment funds and other non-fixed-income securities, there are residual payment obligations amounting to EUR 5,142 k.

Details of shareholdings

Shares in affiliated companies and participating interests are listed below.

List of shareholdings 2022

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	100	SEK	10,685	3,965
Danae Inc, Wilmington**	100	USD	187	n.a.

SEK exchange rate as of 31 December 2022: 10.59744
USD exchange rate as of 31 December 2022: 1.06750

Participations				
VOV GmbH, Cologne	35.25	EUR	2,815*	936*
Amaniki GmbH, Frankfurt am Main	49.9	EUR	12*	-272*
Dunstan AB, Jönköping**	17.14	SEK	n.a.	n.a.

*Figures as of 31 December 2020
**New foundation in the 2021 reporting period

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

Acquisition costs are used for shares in and loans to affiliated companies and participations.

The fair values of shares or stocks in investment funds that are not equity instruments traded on the capital market are determined using the net asset value method.

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.

in EUR thousand			Fair values 31 December 2022	Fair values 31 December 2021
I.	**Investments in affiliated companies and participations**			
	1.	Shares in affiliated companies	101,548	71,122
	2.	Loans to affiliated companies	2,978	
	3.	Participations	2,089	2,166
B. II.	**Other investments**			
	1.	Stocks, shares or equity in investment funds and other non-fixed-income securities	51,005	34,986
	2.	Bearer bonds and other fixed-income securities	531,213	437,305
	3.	Other loans		
		a) Registered bonds	2,500	5,351
		b) Promissory notes and loans	2,106	2,527
	4.	Deposits with credit institutions	9,934	19,236
Total			**706,373**	**527,693**

Accrued and deferred items

in EUR thousand	2022	2021
Deferred interest and rents	3,445	2,711
Other accrued and deferred items	7,796	4,893
Total	**11,241**	**7,604**

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 2022. 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 134,072 k. In the financial year, deposits were made by the shareholder in the amount of EUR 60,000 k and withdrawals of EUR 2,075 k were made.

Statutory reserve

The legal reserve remained unchanged at EUR 3,101 k at the end of the financial year.

Subordinated liabilities

The subordinated liabilities were granted under a subordinated loan from HDI Global SE to HGS:

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

Technical provisions (gross)

in EUR thousand	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	Total		Of which underwriting provisions for losses and loss adjustment		Of which equalisation reserve and similar provisions	
Direct written insurance business						
Casualty insurance	47,905	36,103	31,376	21,427	-	92
Liability insurance	2,285,029	1,863,540	1,785,793	1,442,592	2,982	3,826
Motor third-party liability insurance	64,075	70,188	28,665	35,916	21,876	20,697
Other motor insurance	169,258	152,797	88,327	78,961	11,551	11,740
Fire and property insurance	1,069,042	987,474	757,734	713,348	21	-
Of which:						
Fire insurance	757,661	724,296	579,822	553,461	-	-
Comprehensive householders insurance	963	2,251	797	1,908	21	-
Homeowners' comprehensive reinsurance	5,730	5,144	5,396	4,694	-	-
Other property insurance	304,688	255,783	171,720	153,285	-	-
Marine and aviation insurance	455,718	385,951	296,009	233,558	6,702	4,601
Credit and collateral insurance	121,918	86,270	39,999	29,847	-	3,082
Legal protection insurance	100,752	62,806	54,151	41,053	-	-
Travel assistance insurance	3,582	575	638	334	-	-
Other insurance	206,814	116,561	105,315	64,191	-	-
Total	4,524,106	3,762,265	3,188,007	2,661,227	43,133	44,038
Reinsurance business assumed	630,981	441,059	449,746	336,778	43,024	18,310
Total insurance business	**5,155,087**	4,203,324	**3,637,754**	2,998,005	**86,157**	62,348

Other provisions

in EUR thousand	2022	2021
Provisions for pensions and other post-employment benefits	85	2,091
Provisions for taxes	789	2,429
Miscellaneous other provisions	27,489	26,943
Provisions for personnel expenses	15,715	7,480
Provisions for supplier invoices	9,171	654
Other provisions	2,603	18,809
Total	**28,363**	**31,463**

The difference amount pursuant to section 253(6) sentence 1 of the German Commercial Code (HGB) is EUR 2 k (previous year: EUR 294 k).

As of the reporting date, no assets were offset against corresponding liabilities at fair value. 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 25 k as at the reporting date. In this context, interest income from the cover assets amounting to EUR 1 k was netted with interest expenses amounting to EUR 1 k. The clear decrease in provisions for pensions and other post-employment benefits is mainly due to the transfer of the employees to HDI AG.

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	2022	2022	2022	2021	2021	2021
	Germany	EU/EEA	Third countries	Germany	EU/EEA	Third countries
Casualty insurance	3,340	28,074	16,311	2,937	21,742	9,519
Liability insurance	44,269	273,820	673,255	54,814	235,519	558,855
Motor third-party liability insurance	5,383	4,079	32,899	9,400	2,342	30,688
Other motor insurance	-	93,519	94,425	-	84,985	70,377
Fire and property insurance	1,714	71,871	754,140	2,085	72,896	604,062
Of which:						
Fire insurance	-104	26,541	491,987	238	27,315	405,604
Comprehensive householders insurance	373	-13	-	426	286	-
Homeowners' comprehensive reinsurance	567	5,079	-	568	4,409	-
Other property insurance	878	40,264	262,153	854	40,886	198,458
Marine and aviation insurance	42,924	112,925	139,904	18,899	127,442	150,613
Credit and collateral insurance	-	624	58,783	-	795	20,698
Legal protection insurance	506	6,539	79,870	-	7,036	24,859
Travel assistance insurance	3,884	498	-	150	497	-
Other insurance	8,562	52,012	101,480	4,728	28,183	56,471
Total	**110,583**	**643,960**	**1,951,067**	**93,013**	**581,437**	**1,526,142**

Underwriting expenses for own account

in EUR thousand	2022	2021
Gross underwriting expenses	830,448	650,725
Of which acquisition costs	801,862	626,737
Of which administrative expenses	28,586	23,988
Less: commissions and profit shares received for business ceded to reinsurance	874,597	691,446
Total	**-44,149**	**-40,721**

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

in EUR thousand/in pieces	2022 Gross premiums written	2022 Gross premiums earned	2022 Net premiums earned	2022 Gross expenses for claims	2022 Gross expenses for insurance operations	2022 Reinsurance balance	2022 Underwriting result (for own account)	2021 Number of insurance contracts concluded for at least one year
Direct insurance business								
Casualty insurance	47,725	45,962	4,216	21,518	15,729	6,295	2,494	22,669
Liability insurance	991,344	914,607	75,831	648,765	242,215	-10,617	34,255	386,222
Motor third-party liability insurance	42,361	42,623	2,906	24,344	12,291	5,820	-609	41
Other motor insurance	187,944	177,836	15,714	122,626	52,358	76	2,355	566,998
Fire and property insurance	827,725	790,739	50,009	476,395	237,119	50,448	19,663	1,013,121
Of which:								
Fire insurance	518,424	514,571	33,040	327,827	148,719	19,828	11,321	522,559
Comprehensive householders insurance	360	546	71	183	129	180	37	306
Homeowners' comprehensive reinsurance	5,646	5,763	589	5,558	1,032	-945	118	3,334
Other property insurance	303,295	269,859	16,309	142,826	87,240	31,384	8,186	486,922
Marine and aviation insurance	295,752	292,972	23,352	178,875	78,190	27,255	6,230	130,032
Credit and collateral insurance	59,406	31,038	-1,403	13,343	12,778	5,530	2,469	116,379
Legal protection insurance	86,915	59,716	1,393	24,798	36,138	-639	-676	1,685,875
Travel assistance insurance	4,382	1,667	-49	680	913	74	-	6,061
Other insurance	162,054	113,858	1,945	67,638	39,307	2,769	4,022	9,833
Total	2,705,610	2,471,018	173,915	1,578,982	727,037	87,011	70,202	3,937,231
Reinsurance business assumed	430,333	378,518	65,840	234,494	103,410	21,484	-1,809	-
Total insurance business	**3,135,943**	**2,849,536**	**239,755**	**1,813,475**	**830,448**	**108,495**	**68,394**	3,937,231

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 contracts 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 insurance	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
Reinsurance business assumed	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

Investment income

in EUR thousand	2022	2021
1. Income from long-term equity investments	170	0
2. Income from other investments	8,240	6,869
3. Gains on disposal of investments	547	1,176
Total	**8,957**	**8,045**

Investment expenses

in EUR thousand	2022	2021
1. Investment management expenses, interest expenses and other expenses related to capital investments	1,148	865
2. Impairment losses on investments	1,078	2,249
3. Losses on disposal of investments	1,880	655
Total	**4,106**	**3,769**

Unscheduled depreciations of EUR 1,078 k (previous year: EUR 2,249 k) were made 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	2022	2021
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	660,985	537,428
2. Wages and salaries	54,309	58,650
3. Social security contributions and expenses for employee benefits	7,463	8,177
4. Expenses for retirement benefits	4,447	4,667
5. Total expenses	**727,204**	**608,922**

Other disclosures

Other income and other expenses include exchange rate gains of EUR 25,457 k (previous year: EUR 15,501 k) and exchange rate losses of EUR 34,835 k (previous year: EUR 7,779 k). The exchange rate effects in the reporting period mainly result from changes in the exchange rates of the US dollar, British pound, Swedish krona and Norwegian krone.

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 193,859 k (previous year: EUR 180,863 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 1,820 k (previous year: EUR 2,516 k) from long-term rental agreements for our locations.

HGS has contractually agreed to assume potential future payment obligation up to an amount of USD 4,000 k for Danae Inc. In the financial year, this commitment was utilised in the amount of USD 3,000 k.

The average number of employees in the financial year was 445 (previous year: 550), of which 410 (previous year: 505) were full-time and 35 (previous year: 45) part-time employees.

The total remuneration of the members of the executive body amounted to EUR 2,340 k (previous year: EUR 2,530 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 2022 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 reporting period, 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 reporting period 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.

HDI

Supplementary report

There are no 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 Board

Ralph Beutter
Chairman
Executive Director of HDI Global Specialty SE

Thomas Barenthein
Executive Director of HDI Global Specialty SE

Andreas Bierschenk
Executive Director of HDI Global Specialty SE

Christian Hermelingmeier (from 1 January 2023)
Executive Director of HDI Global Specialty SE

Thomas Stöckl (until 28 February 2023)
Executive Director of HDI Global Specialty SE

Richard Taylor
Executive Director of HDI Global Specialty SE

Board of Directors

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

Jens Wohlthat
Deputy Chairman
former member of the Board of Management HDI Global SE

Sven Althoff
Member of the Board of Management of Hannover Rück SE

Ralph Beutter
Executive Director of HDI Global Specialty SE

Hannover, 27 February 2023

Ralph Beutter   Thomas Barenthein   Andreas Bierschenk   Christian Hermelingmeier   Richard Taylor