Annual Financial Statements

2023

HDI Global Specialty SE

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Management Report

Foundations of the Group

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

As of 31 December 2023, HDI Global 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.

General economic and industry-related conditions

Macroeconomic development

Declining but still elevated inflation, ongoing geopolitical tensions and the consequences of the more restrictive monetary policy of most central banks have slowed global economic momentum in 2023, but without plunging the global economy into recession. While global economic growth in 2022 (+3.5%) was already burdened by the start of the Russian war against Ukraine and the resulting explosion in prices for energy and food commodities, in 2023 the global economy grew by only 3.1% compared to the prior year. In Germany, this weakness derived in particular from (energy-intensive) industries. The purchasing managers' index has been signalling a sustained contraction for 18 months, meaning that industrial production is now a good 10% below its pre-Covid levels. Private households significantly reduced their consumption in the face of limited real wage growth compared to the prior year. On the other hand, investment in equipment remained surprisingly positive, despite an uncertain geopolitical environment and higher interest rates, while the rise in interest rates once again slowed down investment in construction. The weaker global economic environment also caused exports to fall, so that German GDP fell by 0.3% year-on-year in 2023. This meant that growth was not only significantly below the prior year, but also below that of the eurozone as a whole (expected to be +0.5%). The US economy performed with surprising resilience in 2023: Despite an almost unprecedented cycle of interest rate hikes by the Fed (eleven prime rate hikes since March 2022) and the resulting turmoil in the banking sector in the spring, the US economy proved robust and is expected to have grown by 2.5% year-on-year. Apart from the persistently robust labour market (with an unemployment rate of 3.6%), this development was based on rising private and government consumption and declining inflation, which fell from its high of 9.1% in June 2022 to 3.4% in December 2023.
Growth in emerging and developing countries in 2023 remained below the average of recent years, although the picture here is varied. Even though growth in Eastern Europe continued to be impacted by the ongoing Russia-Ukraine war, it nevertheless increased compared to the prior year. By contrast,

growth in Latin America slowed. China's economic recovery continued to lack momentum in the first year after the end of Covid restrictions. While Chinese GDP rose sharply by 2.1% quarter-on-quarter at the start of the year, growth levelled off significantly in the following quarters. This was due to the continuing unresolved turmoil in the real estate sector, which caused a significant deterioration in enthusiasm and adverse impact on private consumption, as well as the slowdown in the global economy. China's GDP is expected to have grown by 5.2% year-on-year, just above the government's growth target of 5%.

Real gross domestic product in % compared to prior year	2023	2022
Germany	-0.3	+1.8
eurozone	+0.5	+3.4
USA	+2.5	+1.9
China	+5.2	+3.0

1 [1] preliminary figures, as at 15 February 2024

Inflation pressure fell globally in 2023. While the inflation rate in the eurozone still stood at 8.4% in 2022, it fell to an annual average of 5.5% in 2023. The pace of inflation slowed over the course of the year. The annual inflation rate was 8.0% in the first quarter and only 2.7% in the fourth quarter. A similar picture emerged in the USA, albeit at a slightly lower level. The annual average inflation rate fell from 8.0% in 2022 to 4.1% in 2023. At the beginning of the year, both the Fed and the ECB tightened their monetary policy and incrementally increased their prime rates by the third quarter, in four steps from 4.5% to 5.5% in the case of the Fed (upper limit), and in six steps from 2% to 4% in the case of the ECB (deposit rate). In line with declining inflationary pressure in the second half of the year, there were no further interest rate hikes.

[1] Source: Blomberg

Capital markets

The international capital markets held up well in the difficult environment of persistently high inflation, concerns about an impending recession, and cyclical aggressive interest rate hikes by many central banks over the course of 2023. Rallying at the end of the year, shares from the USA (S&P 500: +24.2%) closed ahead of the industrialised countries as a whole (MSCI World: +21.8%) and ahead of Europe (EURO STOXX 50: +19.2%). With only slight price gains, the Asian equity markets lagged well behind this development (MSCI ASIA EX JAPAN: 3.6%), and Chinese equities suffered heavy losses (MSCI CHINA: -13.2%). While yields on ten-year government bonds reacted to the rapidly tightening monetary policy environment with sharp increases last year, they remained fairly static through the first half of the year, before rising sharply into the fourth quarter in the face of new concerns about a more restrictive central bank policy. Yields on government bonds fell again towards the end of the year as a result of declining inflationary momentum and the associated hopes of interest rate cuts in 2024. At the end of 2023, the yield on ten-year US Treasuries was 3.88% (+0.01 percentage points), while the yield on ten-year Bunds was 2.02% (-0.55 percentage points). The price of oil (Brent) also rose significantly from USD 86 to USD 97 per barrel at its peak, but ended the year at USD 77 per barrel, which was below the price at the start of the year. The euro climbed by 3.1% over the year to USD 1.10.

International insurance markets

HGS has defined Europe and Latin America as target regions for the expansion of its international retail business. The Group is continuing to expand its presence in industrial insurance worldwide. This section focuses primarily on developments in the international target regions mentioned above.

Despite declining economic growth and persistent inflation, international property/casualty insurance also recorded real premium growth in 2023. The industrial business thus benefited from a tough market.

Growth in the developed insurance markets was below that of the emerging markets and was characterised by a combination of high price momentum and weak economic development. Asia-Pacific recorded the strongest real premium growth, followed by Europe and North America. The positive real premium growth in the emerging markets was driven in particular by the strong growth in China.

Losses caused by natural disasters in the year under review were once again below the prior year's level, but were still significantly above the ten-year average. The majority of the losses were caused by a great many events of low to medium severity, particularly severe thunderstorms. Damage from severe thunderstorms also increased in Europe in 2023. Italy was particularly badly affected. Damage caused by natural disasters reached a new record level there.

International property/casualty reinsurance also recorded positive premium growth in the year under review. Due to ongoing geopolitical and macroeconomic uncertainties, the continuing trend towards high natural disaster costs, and inflation trends, prices were again increased in the course of contract renewal rounds during the year.

German insurance industry

The development of property/casualty insurance in the German insurance industry in 2023 was characterised by inflation-related adjustments to sums and premiums. In motor insurance, there was a weak development in average premiums and low portfolio growth due to the continued low number of new registrations and changes in ownership. Loss expenditure was significantly higher than in the prior year due to inflation. Damage caused by natural hazards increased in 2023 compared to the prior year and was relatively stable at the level of the gradually increasing long-term average. The most severe natural hazards were caused by the summer storms “Kay” and “Lambert” in June of the year under review.

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 2023.

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 monitoring and the governance of insurance products are defined amongst other factors by 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. In addition, the Future Financing Act will introduce a seven-day waiting period for the conclusion of residual debt insurance for general consumer credit agreements, which is due to come into force on 1 January 2025.

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 HDI 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 Talanx 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, in 2023 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.

As a result of the EU's Digital Operational Resilience Act (DORA), there are new requirements in this context that insurance companies and others will have to fulfil from January 2025 onwards. This is intended to strengthen the European financial market against cyber risks and incidents in information and communication technology. Further developments and the specific impact on the Talanx Group will be monitored. Where possible, the Talanx Group will comment on the planned projects via its interest groups and prepare the implementation of the respective current regulatory requirements.

In the Talanx Group, 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 observance and monitoring of the requirements. 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 the companies belonging to the Talanx Group, compliance with the applicable law is a prerequisite for sustained successful business activity. The Group gives a great deal of 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.

As issuers of securities, Talanx AG and other Group companies are subject to capital market supervision - including in Germany and Luxembourg.

Business development

In addition to the international political uncertainties, the 2023 financial year was also affected by an increased number of frequency losses in several lines of business. The impact of large losses was lower than in the prior year. In the third-party liability segment, there were increased losses particularly in the USA. By contrast, the premium volume was below the prior year.

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

Currency (EUR 1 =)	31 December 2023	31 December 2022
Australian dollar	1.62730	1.57102
British pound	0.86893	0.88722
Canadian dollar	1.46512	1.44486
Norwegian krone	11.23600	10.51740
Swedish krone	11.08960	11.11180
US Dollar	1.10510	1.06750

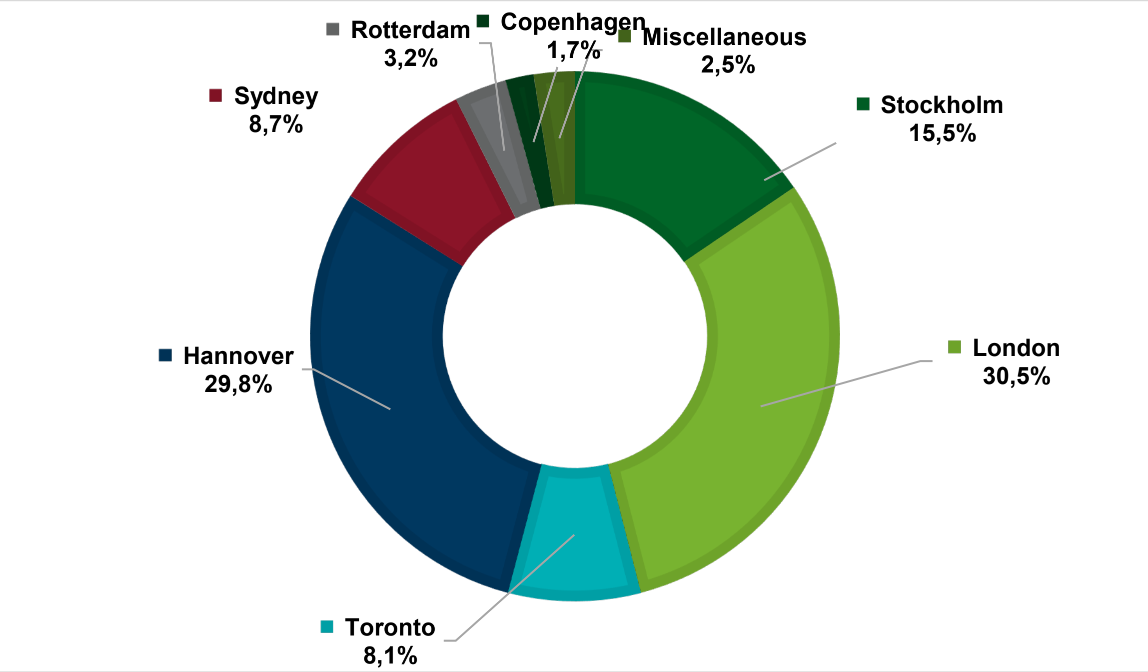
The gross premium volume in the financial year amounts to EUR 3,041.4 million and is thus slightly above the level of the prior year (EUR 3,135.9 million). At EUR 2,667.4 million (prior year: EUR 2,705.6 million), the direct insurance business continued to account for the majority of this. To supplement our business we also assumed reinsurance business to a moderate extent. For the assumed reinsurance business we recorded gross premiums amounting to EUR 374.1 million (prior year: EUR 430.3 million).

The share of business operated by the international branches rose moderately to 70.2% compared to the prior year (69.5%). The latter generated an absolute premium volume of EUR 2,136.4 million (prior year: EUR 2,178.7 million). They therefore continue to represent a decisive share of the gross premium income, and thus reflect the international orientation of the Company.

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

Premiums per branch office in million EUR	31 December 2023	31 December 2022
Hannover	905.0	957.2
London	926.2	885.0
Stockholm	470.5	525.0
Sydney	263.4	323.5
Toronto	245.7	213.0
Rotterdam	97.6	82.8
Copenhagen	53.0	55.6
Brussels	40.2	38.1
Milan	39.8	36.2

Gross premiums by branches



As a result of the reorganisation of the specialty business begun in prior years, our company reinsured the majority of the business within the HDI Group in the financial year. 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 2,899.0 million (prior year: EUR 2,849.5 million) and the premiums earned for own account amount to EUR 296.3 million (prior year: EUR 239.8 million).

The loss ratio (gross) rose to 73.2% in the financial year (prior year: 63.6%). The increase in the loss ratio is due to higher claims development in the accident, transport and aviation lines of business, as well as a major loss event in the third-party liability line in the USA.

In the financial year, a run-off result of EUR -429.1 million (gross) and EUR -73.1 million (net) was achieved. A key driving factor is uncertainty caused by the Ukraine-Russia conflict, with war policies being offered in some lines of business, e.g. aviation, whose final claims exposure is still unclear. Furthermore, losses in the third-party liability line have decisively influenced the run-off result.

The gross expenses for insured events amount to EUR 2,123.5 million (prior year: EUR 1,813.5 million).

Gross underwriting expenses fell slightly in line with expectations and approximately proportionally to the business volume, and amounted to EUR 792.7 million (prior year: EUR 830.4 million) or 27.3% (prior year: 29.1%).

The combined ratio (gross) stands at 100.5% (prior year: 92.7%).

In accordance with the statutory regulations, we allocated an amount of EUR 24.1 million (prior year: EUR 23.8 million) to the claims equalisation reserve and similar provisions. Hence, the carrying amount of the claims equalisation reserve and similar provisions amounts to EUR 110.2 million (prior year: EUR 86.2 million). To the extent necessary, we supplemented the observation period on which the calculation of the claims equalisation reserve is based, by the loss ratios from the BaFin tables published for the insurance industry.

Under consideration of reinsurance, we achieved a net technical result of EUR 45.6 million (prior year: EUR 64.5 million) in the past financial year.

At the time of preparation of the management report, the economic situation of HDI Global Specialty SE remained stable, despite the increased losses and the unsettled international political situation.

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 net technical result.

Direct insurance business

Third-party liability

in EUR million	2023	2022
Gross premiums written	944.4	991.3
Loss ratio (%)	89.6	70.9
Underwriting result (for own account)	34.2	34.3

The premium volume in **liability insurance** amounts to EUR 944.4 million (prior year: EUR 991.3 million). This decline in premiums is mainly due to lower premiums in the mergers and acquisitions division of the national and international branches. With a premium volume of about 35.4% 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 89.6% and thus about 18.7 percentage points above the loss ratio of 70.9% in the prior year. The increased loss ratio in the year under review is characterised by more large loss events compared to the prior year. After changes in the claims equalisation reserve, the net technical result amounts to EUR 34.2 million (prior year: EUR 34.3 million).

Casualty

in EUR million	2023	2022
Gross premiums written	87.0	47.7
Loss ratio (%)	57.9	46.8
Underwriting result (for own account)	3.4	2.5

In **personal accident insurance**, we were able to increase gross premiums by EUR 39.3 million to EUR 87.0 million, mainly through new business. The loss ratio significantly increased from 46.8% in the prior year to 57.9% in the financial year. In total, the underwriting profit for own account amounts to EUR 3.4 million (prior year: EUR 2.5 million).

Motor vehicle

In EUR million	2023	2022
Gross premiums written	215.0	230.3
Loss ratio (%)	75.8	66.7
Underwriting result (for own account)	5.3	1.7

Gross premiums in **motor insurance** totalled EUR 215.0 million (prior year: EUR 230.3 million), with the decline in premiums largely driven by deliberate risk reductions in the Australian branch. The loss ratio has increased in the year under review to 75.8% (prior year: 66.7%), and was influenced by higher frequency losses and negative trends. The release of the claims equalisation reserve for the financial year amounts to EUR 2.7 million (prior year: allocation of EUR 1.0 million). In total, the underwriting profit for own account amounts to EUR 5.3 million (prior year: EUR 1.7 million).

Fire and property insurance

in EUR million	2023	2022
Gross premiums written	756.6	827.7
Loss ratio (%)	75.8	60.2
Underwriting result (for own account)	19.2	19.7

With a gross premium income of EUR 756.6 million (prior year: EUR 827.7 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. Compared to the prior year, conscious risk reduction led to a fall in premiums. The loss ratio of 75.8% in the year under review is higher than the prior year's ratio of 60.2%. After changes in the claims equalisation reserve in the financial year, the net technical result amounts to EUR 19.2 million (prior year: EUR 19.7 million).

Marine and aviation insurance

in EUR million	2023	2022
Gross premiums written	321.1	295.8
Loss ratio (%)	104.2	61.1
Underwriting result (for own account)	-0.7	6.2

The gross premium volume in **marine and aviation insurance** increased in the year under review by EUR 25.3 million to EUR 321.1 million in this financial year. The increase resulted from an expansion of our business activities. The loss ratio increased during the financial year to 104.2% (prior year: 61.1%). The main drivers for the increase in the loss ratio are related to the Russia-Ukraine conflict. The net technical result, under consideration of the claims equalisation reserve, amounts to EUR -0.7 million (prior year: EUR 6.2 million).

Credit and collateral insurance

in EUR million	2023	2022
Gross premiums written	87.5	59.4
Loss ratio (%)	30.0	43.0
Underwriting result (for own account)	-1.4	2.5

Credit and collateral insurance posted gross premiums written of EUR 87.5 million (prior year: EUR 59.4 million). The increase resulted predominantly from new business. The loss ratio was reduced significantly from 43.0% to 30.0%. In total and after changes in the claims equalisation reserve, the underwriting loss for own account amounts an underwriting loss of EUR -1.4 million (prior year: EUR 2.5 million).

Legal protection insurance

in EUR million	2023	2022
Gross premiums written	90.7	86.9
Loss ratio (%)	36.5	41.5
Underwriting result (for own account)	-4.6	-0.7

In the year under review, business in **legal protection insurance** increased by EUR 3.8 million to EUR 90.7 million (prior year: EUR 86.9 million). Following the rapid increase in the prior year, the loss ratio fell again slightly to 36.5% (prior year: 41.5%). In total, the underwriting loss for own account amounts to EUR -4.6 million (prior year: loss EUR -0.7 million).

Other insurance

in EUR million	2023	2022
Gross premiums written	164.8	166.4
Loss ratio (%)	64.4	59.1
Underwriting result (for own account)	6.0	4.0

Under **other insurance** we booked gross premiums of EUR 164.8 million (prior year: EUR 166.4 million). Other insurance includes gross premiums written of EUR 7.0 million (prior year: EUR 4.4 million) from the travel assistance insurance. We concluded the financial year with a loss ratio of 64.4% (prior year: 59.1%) for other insurance. In total, the underwriting profit for own account amounts to EUR 6.0 million (prior year: profit EUR 4.0 million).

Reinsurance business assumed

in EUR million	2024	2022
Gross premiums written	374.1	430.3
Loss ratio (%)	50.8	62.0
Underwriting result (for own account)	12.8	-5.6

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 170.7 million, EUR 81.8 million, EUR 29.5 million, EUR 61.5 million, and EUR 23.8 million. In total, we achieved gross premiums of EUR 374.1 million (prior year: EUR 430.3 million), and our reinsurance business thus shrank. One of the reasons for this decline was the expiring contractual relationship from the Argenta business, which predominantly related to the third-party liability line. Furthermore, some business was reclassified as direct business during the year under review. The loss ratio in the year under review amounted to 50.8% (prior year: 62.0%). The net technical result was EUR 12.8 million (prior year: EUR -5.6 million).

The development in the past financial year led to an allocation to the equalisation reserve (claims) in the amount of EUR 14.3 million (prior year: EUR 24.7 million), which made a significant contribution to the net technical result.

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. HDI Reinsurance (Ireland) SE assumes the majority of the business ceded to Group companies. The proportion being assumed by Hannover Rück SE continues to decline. 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 2,697.8 million (prior year: EUR 2,832.8 million). The retention ratio of 11.2% is therefore slightly above prior year's level (9.7%).

From the reinsurers' perspective, the result from business ceded to reinsurers amounted to EUR 92.9 million in the financial year (prior year: EUR 108.5 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 participating interests decreased slightly to a total of EUR 103,147 k (prior year: EUR 103,673 k) in the financial year. The shares in affiliated companies amounted to EUR 101,541 k (prior year: EUR 101,548 k) and long-term equity investments were EUR 1,606 k (prior year: EUR 2,089 k).

HGS's portfolio of other investments increased slightly in the year under review from EUR 618,602 k to EUR 653,080 k. Major additions in this connection relate to bearer bonds and other fixed-income securities.

The distribution of the various investment classes within Other investments for the year under review is as follows. The proportion of bearer bonds and other fixed-income securities increased slightly to 91.1% (prior year: 90.3%). The share of other loans remained constant at 0.7% (prior year: 0.7%). Deposits with credit institutions amounted to 1.0% (prior year: 1.6%) as of the reporting date. The stocks, shares or equity in investment funds increased during the financial year to 7.2% (prior year: 7.4%).

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 41% (prior year: about 54%) of the other investments. The proportion of AA-rated investments increased slightly to around 28% (prior year: around 18%). Individual securities with an A rating account for about 20% (prior year: about 18%) of our portfolio. The share of other investments with a BBB rating is around 3% (prior year: 3%). Investments without a rating remained almost unchanged, accounting for around 9% (prior year: 7%) 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 -13,125 k at the reporting date (prior year: EUR -21,843 k). The hidden reserves amount to EUR 6,532 k (prior year: EUR 6,403 k). Of this amount, EUR 2,745 k (prior year: EUR 5,698 k) is attributable to stocks, shares or equity in investment funds and other non-fixed-income securities and EUR 3,786 k (prior year: EUR 705 k) to bearer bonds and other fixed-interest securities. As of the reporting date, there were hidden liabilities of EUR 19,657 k (prior year: EUR 28,246 k) in other investments. Of this amount, EUR 18,081 k (prior year: EUR 28,082 k) is attributable to bearer bonds and other fixed-income securities and EUR 1,575 k (prior year: EUR 164 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 12,564 k (prior year: EUR 8,410 k) and is attributable in the amount of EUR 10,437 k (prior year: EUR 8,058 k) to current interest income from bearer bonds and other fixed-income securities.

The result from the disposal of investments totalled EUR 3,767 k (prior year: loss of EUR 1,333 k) and is made up of gains on disposal of investments amounting to EUR 3,948 k (prior year: EUR 547 k) and losses on disposal of investments amounting to EUR 181 k (prior year: EUR 1,880 k).

Impairment losses on investments amount to EUR 14 k (prior year: EUR 1,078 k) and relate to bearer bonds and other fixed-income securities, which were valued according to the strict lower of cost or market principle.

The management of investments caused expenses of EUR 1,519 k in the financial year (prior year: EUR 1,148 k). The total investment income amounts to EUR 15,019 k (prior year: EUR 4,850 k).

Other income/expenses

The other income/expenses consists of other income of EUR 50,783 k (prior year: EUR 33,723 k) and other expenses of EUR 132,158 k (prior year: EUR 110,258 k), resulting in a loss on balance of EUR 81,375 k (prior year: loss of EUR 76,535 k) as other income/expenses.

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

Other expenses include expenses from exchange rate changes, which are overcompensated for by the exchange rate changes included under other income. The other expenses otherwise consist largely of expenses for IT, personnel expenses and depreciation.

Overall result

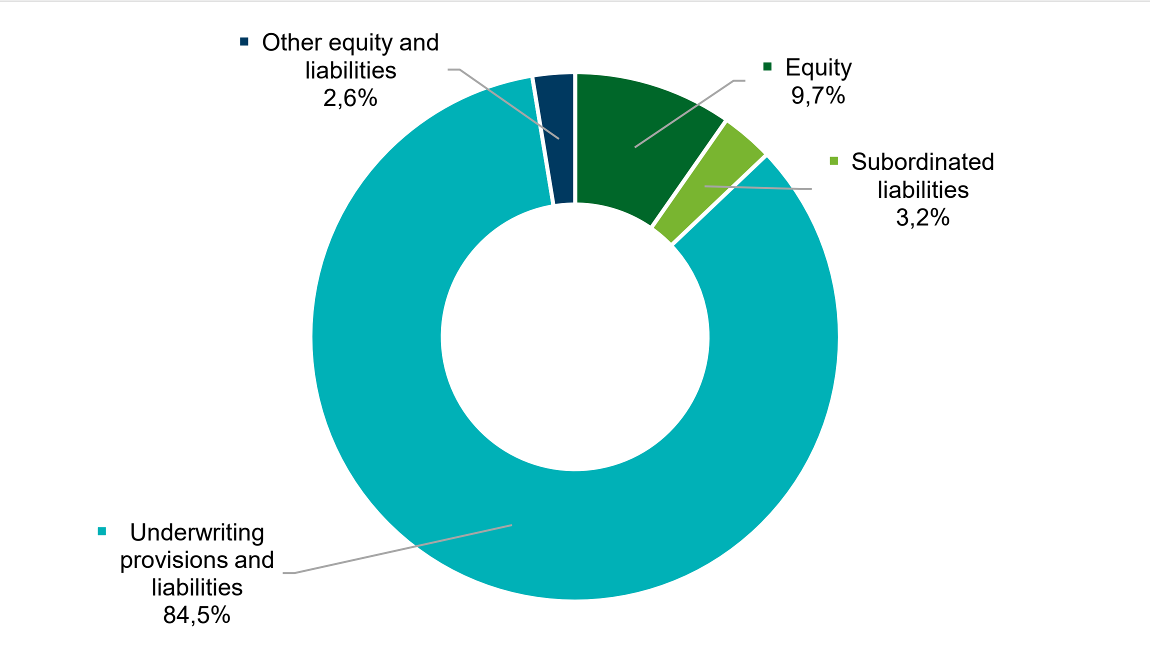
The financial year ended with a net loss for the year of EUR 29,749 k (prior year: net loss of EUR 14,980 k). The net loss is EUR 27,824 k (prior year: distributable profit of EUR 1,925 k). The overall result is therefore below the prior year's expectations due to increased claims in the third-party liability line and the additional impact of the conflict between Russia and Ukraine.

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 19,000 k was transferred to the capital reserve. The loss for the financial year more than compensates for the contribution to the capital reserve, and leads to a lower equity ratio compared to the prior year. At 9.7% of the balance sheet total (prior 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 3.2% (prior year: 3.5%) 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 84.5% (prior year: 83.4%) is slightly above the prior year's level.

Capital structure on the reporting date



Branches

In the 2023 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.

IT

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

Employees

As of 31 December 2023, the Company had 519 employees (prior year: 466).

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, working together 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.

Personnel secondment

Employee mobility remained highly important in 2023. 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[2] Talanx Group Sustainability Report and online at www.talanx.com/nachhaltigkeit.

[2] Pursuant to Section 317(2) clause 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

Our corporate strategy sets out the principles that enable us to realise our vision of being a top provider of specialty insurance within the Talanx Group that is recognised for its expertise. A characteristic feature of HGS should be that business partners are served in a solution-orientated, competent manner and with excellent service, especially during their transformation in a dynamically changing world. The company's network of branches enables HGS to provide customer and sales partner-centred support in the respective markets while maintaining its global orientation. We want to develop a sustainable company that respects the environment in which we live. As an employer, we strive to take care of our employees and foster an inclusive work environment that promotes diversity. We are committed to supporting our teams around the world and providing them with platforms and tools to make the most of their local expertise and knowledge to create a sustainable, competitive and profitable business. 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. 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

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 integrity and compliance.
- We focus on sustainability and ESG.

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 the HDI Group 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 the past financial year, HGS made targeted use of the growth opportunities that arose from the strategic orientation of the Company. In both agency and individual risk business, new business relationships were established and existing connections expanded. Business relationships that did not fulfil our requirements were terminated. Growth was supported by recognition of the HDI brand and 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. 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. In addition to reducing complexity, the ongoing integration into the HDI Group[3] has made it possible to achieve synergy and cost effects, which were further expanded in the past financial year as part of the "Growing together" initiative with the consolidation of additional departments, including People & Culture, Legal, Compliance, Reinsurance and Finance. Existing initiatives to modernise the IT landscape were further advanced, in particular the expansion of a data warehouse and the introduction of the inventory management system. In addition, planning is ongoing for the integration of HGS into the IT infrastructure of the Primary Insurance Group. The ongoing improvement of IT outsourcing management is of particular importance for HGS (including cloud outsourcing). The IT management unit was further expanded to monitor outsourced IT functions, both within the Group and to external partners, as well as for the development and application of existing and new software tools. In addition, activities have been continued in relation to VAIT requirements and their compliance. HGS takes into account any measures identified when prioritising the ongoing development of IT capabilities. 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 corresponding regulations. IFRS 17 represents a challenge for the interpretation of key figures, which HGS meets with its learning organisation.

Impact of COVID-19

The COVID-19 pandemic represented a significant large loss event for HGS, and had a corresponding impact on the technical performance in 2023. The impact was particularly significant in the film industry and event cancellation lines. 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 the war in Ukraine

The effects of the large loss from the Ukraine-Russia conflict are affecting HGS in different ways in various lines of business. While most general insurance policies contain a war exclusion clause, explicit war policies are offered in certain lines. In the aviation line in particular, there is uncertainty about the ultimate exposure to loss. The agreements reached to date open up the prospect of a considerable reduction in the loss totals originally projected. There is limited war exposure in the shipping line. Our predominantly European and US customers, to whom HGS has provided coverage in the political risks line, also protect risks in Ukraine and Russia.

[3] In 2022, HDI Global SE took over the equity shares of Hannover Rück SE, and HDI AG, a standardised HR-managing company in Germany, was founded. This led to an expansion of the key insurance activities and key functions being outsourced to HDI AG, which took place in addition to the outsourcings that had already been made to Hannover Re and Ampega Asset Management.

Other geopolitical tensions

The war between Israel and Hamas is increasing the complexity of the global geopolitical environment. In 2023, the impact of the conflict on HGS proved to be manageable.

In light of the ongoing tensions between China and Taiwan, HGS has analysed the effects of a hypothetical conflict and is continuously monitoring the situation in order to be able to react at an early stage to avoid potentially high losses in the event of an escalation.

US payments in excess of the sum insured (XPL)

Due to the increasing political polarisation in the USA, unfair conduct in loss adjustment can be assumed and this can be punished with payments above the policy limit. HGS is exposed due to its business activities in the USA, in particular due to the outsourcing of loss adjustment, and was confronted with the settlement of such a case. HGS subsequently introduced a training concept in the area of US insurance law and US regulatory practice. US claims administrators will be more closely supervised and a US law firm will be appointed to act as “monitoring counsel” for exposed claims.

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 prior 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 and further development 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 is further balancing its portfolio by continuing to reduce its exposure to natural hazards in the USA and Australia. Macroeconomic trends, such as the rise in interest rates, also had only a moderate overall impact on HGS's business development.

Regulatory uncertainties in the UK

The British supervisory authority has published plans for the further development of supervisory regulations for the British insurance sector. For the Financial Services Compensation Scheme (FSCS) business, the supervisory authority is specifying its requirements to the effect that a higher retention or the formation of a company will provide more security for British customers. Both result in a higher degree of uncertainty.

Metatrends: geopolitical tensions, demographics and climate change

Geopolitical tensions such as the war in Ukraine or Israel, and the changed conditions for global trade, led to underwriting losses. 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.

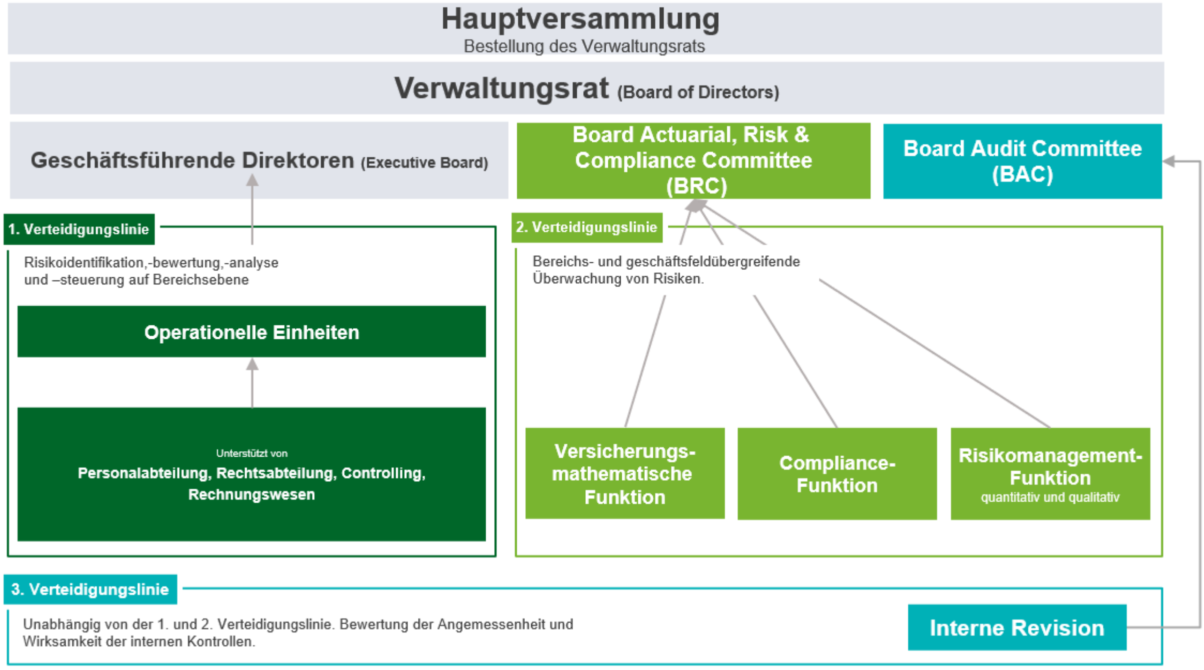
The SIM used by HDI Global Specialty is a stochastic corporate model covering all business fields of HGS. It determines the regulatory and economic risk capital required as value at risk (VaR) of the change in value over a period of one year, and has a confidence level of 99.5%. It takes into account 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. The capitalisation of HDI Global Specialty should always exceed at least 120% of the regulatory requirements.

Organisation and processes of risk management

In order to ensure an efficient risk management function system, the Board of Directors of HGS has established a risk management function and a risk committee (part of the Board Actuarial, Risk & Compliance Committee (BRC)). The BRC supports the Board of Directors by providing advice, making recommendations and assessing the risk management function. The committee provides advice particularly on the implementation of risk-reducing measures in line with the business strategy and the business plan of HDI Global Specialty. Moreover, the BRC supports the Board of Directors in ensuring the effective implementation of the risk management system and in performing the annual review of the governance system. The BRC is also responsible for risk management guidelines, and for approving these. In addition, HGS ensures that the risk management function is involved in the Company's decisions in an appropriate manner in terms of content and timing. The organisation and interaction of the individual Risk Controlling functions are decisive for our internal risk management and control system. The central risk management functions are closely interlinked in our system. Roles, tasks and reporting channels are defined and documented in terms of 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 of risk management function, actuarial function and compliance function, which report to the BRC. 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	1st 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 the Human Resources Department, Legal Department, Controlling, Accounting
2. Verteidigungslinie	2nd 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	3rd line of defence
Interne Revision	Internal Audit

Key elements of our risk management system

Our risk strategy, the guidelines on risk and capital management, operational and reputational risks, as well as the limit and threshold value system for the major risks of HGS describe the elements of our risk management system. 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 risk discussions, 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 quantitative risk measurement is 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 include their underwriting activities and securities trading. 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. Risk management is supported, among other things, by the requirements of the underwriting and capital investment guidelines as well as 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 takes place at various checkpoints; here, the regular solvency calculation according to the internal model to determine the overall risk profile and information on this to the BRC should be mentioned. 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). HGS is also integrated into the Group's internal reporting on risk management. This takes place via the forwarding of supervisory and supplementary reports.

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. 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 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.

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. These are based on the qualitative assessments and 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 (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 impact 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.

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 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.

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 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.

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. Pension risks (influenced by inflation and spread risks) are also recognised in market risk. 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. The real estate risk is mitigated through broad diversification, such as investment in funds.

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.

Our capital investments were subject to the following stress tests, amongst others.

Interest rate stress tests	Change of AuM in EUR million	Change in %
Parallel shift -100 bp	9.28	0.9
Parallel shift -50 bp	4.60	0.5
Parallel shift +50 bp	-4.53	-0.5
Parallel shift +100 bp	-8.98	-0.9
Parallel shift +200 bp	-17.67	-1.8

Table 1: Interest rate stress tests and their impact on capital investments of HGS (reporting date 31 December 2023)

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
Hannover Re	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)

Table 2: Rating of the internal reinsurers of the Talanx Group (reporting date 31 December 2023)

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 \ Company	Hannover Re	HDI Group	External
AAA - A	2,209.21	1,402.98	111,19
< BBB	/	/	25,72
Total	2,209.21	1,402.98	136,91

Table 3: Reinsurance default risk to Group companies and third parties by rating (as at 31 December 2023, values in EUR million/%)

The extent of the reinsurance default risk is within the risk appetite of HGS.

Operational risks

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

- Business processes (including data quality),
- Compliance (active and passive)
- Fraud (internal and external)
- Outsourcing
- Personnel
- Information and IT security
- Business interruption/failure

Business process risks consist of the risk of inadequate or faulty internal processes which may arise, e.g. 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. The HGS data management organisation has continued to pursue various initiatives to ensure and continuously improve data management.

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 compliance risk in the Delegated Authority business model is also monitored by a separate department. In line with the requirements of VAIT and to ensure compliance, HGS is continuing to expand its IT management 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, e.g. 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. The (important) Group-internal outsourcing actions to HDI AG, including the four key functions of internal audit function, compliance function, actuarial function and risk management function, are managed, controlled and monitored as part of the established outsourcing process. The annual review of the services provided and the associated risks by the BRC enables additional monitoring of these functions. 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 and for the monitoring of outsourced IT functions within the Group and to external partners, HGS is further expanding its IT management department in order to manage the resulting outsourcing risk appropriately.

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, e.g. 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. These are risks that cannot be quantified for HGS, e.g. geopolitical tensions, demographics and commodity shortages, which are considered on a qualitative basis. Such risks gradually develop from weak signals to clear trends. In the prior year under review, an evaluation of exposure to PFAS ("per-" (fully) and "poly-" (partially) fluorinated substances that contain at least one fully fluorinated methyl (-CF3)) was evaluated in the third-party liability lines. Based on the analyses, the exposure in the HGS customer group was classified as moderate. Early risk detection and subsequent assessment are correspondingly 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 HDI Group companies and partners. The subject of reputation is handled appropriately on all levels of the Company. An escalation process can thus be utilised in the event of broader public awareness.

We define liquidity risk as the risk of not being able to fulfil our financial obligations when they fall due or of achieving lower returns, for example through short-term sales of securities in the capital investment. 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). A key element of the liquidity management of our capital investments is the management of the maturities/currency structure of our capital investments on the basis of the planned payout profiles by currency from the technical underwriting obligations. The asset manager of HGS manages a short-term investment portfolio, controlled according to liquidity requirements, and a long-term investment portfolio, which is invested according to the objectives of HGS's strategic asset allocation. In addition, permanent liquidity management is carried out at the locations, which includes ongoing planning and close cooperation within HGS as well as with HDI Global SE. Beyond the foreseeable payouts, unexpected, extraordinarily high payouts, for example due to a catastrophe, could pose a liquidity risk, which is countered in the actuarial practice by so-called loss contributions from reinsurers. These measures effectively reduce the liquidity risk.

Sustainability risks, including climate change or other environmental, social and governance (ESG) issues, are of strategic importance to HGS as our customer base includes, e.g., carbon-intensive CO2-based industries. Since it is a meta-risk, it can materialise in all risk categories of HGS. HGS counters this by expanding the entire risk management process to include additional ESG criteria. Sustainability risks are identified, monitored, evaluated and integrated into risk management. In our operations, the influence of ESG has been demonstrated in the form of Solvency II regulations (governance), supplier codes of conduct, and also compliance with sanctions and licensing regimes, as well as underwriting and capital investment guidelines. Climate change is also a topic 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). HGS follows the recommendations of these committees. 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.

Systemic risks within the HGS portfolio, such as geopolitical tensions and the rise in interest rates implemented by the central banks, are also identified, monitored and evaluated as part of the risk management system. This is also a meta risk that applies in multiple areas of the Company.

Opportunity report

Profitable growth and creation of synergies

As a broad-based provider of specialty insurance, HDI Global Specialty SE enjoys growth perspectives. The close business relationships we have built up over the years with our sales partners in the various regions and specialty segments continue to provide significant impetus for 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. Establishing HDI AG and further consolidating departments has allowed further optimisation to be leveraged through the standardisation of processes, pooling of expertise, and closer cooperation, along with prospects of further optimisation in future. HDI AG provides HGS with extensive services, including key functions and other 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. The "Growing together" initiative also supports the efforts of HGS in achieving its strategic goals, and enables further optimisation potential by merging service functions in the branches with those of HDI Global SE.

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

During the past reporting period, HGS continued with the introduction and further development of the new inventory management system. After completion of the first phase of the project - the introduction of the software in the Dutch branch - this was rolled out to the Belgian and Danish branches. The functionalities comprise contract administration, collection, policy administration, claims management, reinsurance and technical accounting. The system will enable us to successfully manage the expected higher number of policy units and the intended expansion of vertical integration, and achieve a higher degree of automation and a better service level for our clients. In the next phases, the system will be developed further within the existing branches, accompanied by the incremental rollout to further branches. In the long term, the company-wide inventory management system also facilitates standardisation of the 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 clients.

Digitalisation

As insurtechs and start-ups usually cannot act as authorised insurers, and because HGS meets the corresponding needs with its agency model, digitalisation opens up opportunities for us. 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.

Opportunities through emerging risks

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 groups conduct a qualitative assessment of emerging risks. For example, the failure of critical infrastructure, cyber risks, but also climate-related disasters, data protection, environmental risks, changes in the political landscape or risks in the supply chain are considered to be significant. As a result, not only the potential risks but also any existing business opportunities are examined. In the year under review, the topics of compensation for personal injury, microplastics, medical progress, shifts in the spectrum of pathogens, antibiotic resistance, shifts in the political landscape, political violence and terrorism, asbestos, endocrine disruptors, megacities, nanotechnology and the regulatory environment were also analysed in greater depth in corresponding position papers. In addition, HGS is involved in the working group at the Industrial Lines 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 function, and is applied whenever a contractual commitment is to be entered into that has not yet been analysed by HGS in this format, or where operational risks have significantly changed, the risk to be insured is new, or where 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

In 2023, the global economy cooled further in an environment characterised by persistently high inflation rates, significantly more restrictive monetary policies worldwide, and existing (Ukraine) and new (Israel) geopolitical conflicts. Although the recent decline in inflation rates suggests that most central banks have probably already reached their interest rate peak, the after-effects of the immense tightening of monetary policy are likely to continue to weigh on the economy well into 2024. The industrialised countries should bottom out in the first half of 2024, while the emerging and developing countries could grow more strongly again from the spring.

In Germany and the eurozone, the extensive stagnation of the prior year is likely to continue into the summer. Falling inflation, combined with strong wage growth in view of tight labour markets, should then lead to real income increases and boost private consumption. These developments should also allow the ECB to begin a cautious cycle of interest rate cuts from the second quarter onwards. In the second half of the year, an upturn in the global economy should also boost exports and investments. While we had previously assumed that energy costs in Europe would not fall back to the levels from before the outbreak of the war in Ukraine, and would therefore represent an ongoing financial challenge for companies and private households, another risk factor has been added by the conflict between Hamas and Israel, and the associated disruption of supply routes through the Red Sea.

Unlike in Europe, the US economy grew strongly into the fourth quarter of 2023. The peak has likely already been reached there: for 2024, we anticipate a declining momentum in economic performance. The higher level of interest rates is not only slowing down lending and investment, but is also having an increasingly negative impact on the labour market, meaning that the strong wage increases of the prior year are unlikely to continue. The resumption of temporarily suspended student loan repayments also represents a slowing influence on private consumption. However, based on their experiences with COVID-19, companies are likely to shy away from broad-based layoffs of staff, which means a sharp drop in demand should be avoided. The Fed's first interest rate cuts starting in the spring, along with an upturn in the global economy, also promise a tailwind for the second half of the year.

For our prospects we perceive a significant risk of a downturn, however, in particular in the possibility that central banks tighten their monetary policy too far owing to fears of returning inflation, which could thus cause a more severe recession. In a year with elections due not only in the USA, but also for a good half of the world's population, we see an increased risk of (geo)political conflicts flaring up (especially China/Taiwan/USA). In addition, there are structural risks such as climate change, the stability of the Chinese economy given the ongoing crisis in the real estate sector, and the high levels of public and private debt in many economies following the end of the low interest rate environment.

Capital markets

The decline in inflation rates in the US and the eurozone, moving towards the central bank targets, should allow the Fed and ECB to shift their focus from fighting inflation to supporting the economy, and thus to start cutting interest rates in the spring.

Parallel to this, the recovery on the bond and equity markets at the end of 2023 is likely to have already significantly anticipated the forthcoming interest rate cuts by the ECB and Fed, meaning that yields on German government bonds and US Treasuries should be around their current levels by the end of 2024. We perceive risks in particular from increased issuing activity, coupled with a simultaneous decline in the volume of government bonds issued by central banks. We see limited upside potential for equities in 2024. As we certainly do not expect a more severe recession, equity and corporate bond prices should be safe from any major setbacks.

Future situation of the 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.

International insurance industry

In the international property/casualty insurance sector, we expect real premium growth during 2024 to be slightly above that of 2023. We expect positive development in both the developed insurance markets and the emerging markets. For the developed insurance markets, we expect premium income to increase in 2024 compared to the year under review, which is likely to be below the multi-year average however, particularly in North America. We also expect premium growth in the emerging markets to be below the long-term average, which will continue to be driven in particular by the positive premium trend in China. Profitability in international property/casualty insurance should continue to recover in 2024 and be well above the ten-year average. In view of the rising interest rate level, we anticipate that both investment income and income from underwriting will continue to improve, due to more appropriate premium rates for corporate and private insurance.

In the international life insurance markets, we expect a slight increase in real premium growth, above the long-term average for both the developed insurance markets and the emerging markets. Relatively speaking, the strongest impulse is expected to come from China. This trend is supported in particular by a growing middle class and increasing risk awareness among the population.

German insurance industry

We expect the overall situation to improve significantly in 2024. For the German insurance market, we expect a significant increase in premium growth compared to 2023.

In property/casualty insurance, we once again anticipate above-trend positive growth in premium income in Germany in 2024, driven by inflation-related adjustments to sums and premiums.

Outlook for the business as a whole

The 2023 financial year continued to be significantly characterised by the high level of inflation and international political and macroeconomic uncertainty. As expected, the ongoing conflict between Russia and Ukraine had a negative impact on the financial year. In the past financial year, we recognised further reserves as risk provisions. Although the overall amount of large losses was lower than in the prior year, there was an increased number of frequency losses in the financial year, which had a negative impact on the financial year.

Premium income fell slightly during the 2023 financial year. The reason for this was that contracts in the motor vehicle segment were not renewed for reasons of targeted risk reduction, along with the decline in premiums in the national and international mergers & acquisitions segment. For the 2024 financial year, however, we continue to expect satisfactory rates in the speciality segments and consequently further slight growth in premiums and new business. We expect a further slight improvement in the frequency loss ratio compared to 2023.

The recent underwriting years from 2021 already show an improvement in the loss ratio during the current financial year. As long as the large loss situation in the 2024 financial year remains within the range of expectations, we anticipate a further moderate improvement in the underwriting result compared to the past financial year.

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. We are also continuing to drive forward our risk diversification process.

Due to the aforementioned developments, for 2024 we expect an improved overall result compared to 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 insurance

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 2023

Assets (in EUR thousand)	31 December 2023				31 December 2022
A. Intangible Fixed Assets					
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				0	505
B. Capital investments					
I. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		101,541			101,548
2. Loans to affiliated companies		7,601			2,978
3. Participating interests		1,606			2,089
			110,748		106,615
II. Other investments					
1. Stocks, shares or equity in investment funds and other non-fixed-income securities Securities		46,842			45,471
2. Bearer bonds and other fixed-income securities		595,662			558,590
3. Other loans					
a) Registered bonds	2,411				2,500
b) Promissory notes and loans	2,026				2,106
		4,437			4,606
4. Deposits with credit institutions		6,139			9,934
			653,080		618,602
III. Funds withheld by ceding companies			25,217		24,697
				789,045	749,914
C. Receivables					
I. Receivables arising from direct insurance business due from insurance intermediaries			1,289,373		1,240,573
II. Accounts receivable from reinsurance business			228,006		212,962
of which due to affiliated companies: EUR 71,595 k (prior year: EUR 68,104 k)					
III. Other receivables			13,469		20,601
of which due to affiliated companies: EUR 1,841 k (prior year: EUR 4,889 k)					
				1,530,848	1,474,136
Amount carried over				2,319,893	2,224,555
D. Other assets					
I. Tangible fixed assets and inventories			1,823		1,957

II. Cash at banks			225,551		129,047
				227,375	131,004
E. Accrued and deferred items					
I. Deferred interest and rents			3,995		3,445
II. Other accrued and deferred items			15,223		7,796
				19,218	11,241
Total assets				**2,566,486**	**2,366,800**

Equity and liabilities (in EUR thousand)	31 December 2023				31 December 2022
A. Equity					
I. Subscribed capital			121,600		121,600
II. Capital reserve			153,072		134,072
III. Retained earnings					
1. Statutory reserve			3,101		3,101
IV. Net loss/profit			-27,824		1,925
				249,949	260,698
B. Subordinated liabilities				84,000	84,000
C. Technical provisions					
I. Unearned premium reserve					
1. Gross amount		1,547,806			1,431,176
2. less: Share for business ceded to reinsurers		1,242,596			1,169,681
			305,209		261,496
II. Loss and loss adjustment expense reserve					
1. Gross amount		4,253,682			3,637,754
2. less: Share for business ceded to reinsurers		3,847,453			3,318,384
			406,229		319,370
III. Claims equalisation reserve and similar provisions			110,248		86,157
				821,686	667,022
D. Other provisions					
I. Provisions for pensions and other post-employment benefits			88		85
II. Provisions for taxes			5,748		789
III. Miscellaneous other provisions			30,132		27,489
				35,968	28,363

Amount carried over				1,191,603	1,040,083
E. Funds withheld under reinsurance treaties				103,306	67,282
F. Other liabilities					
I. Liabilities from direct insurance business due to intermediaries			44,505		114,145
II. Accounts payable on reinsurance business			1,197,979		1,124,599
of which due to affiliated companies: EUR 1,092,135 k (prior year: EUR 996,957 k)					
III. Other liabilities			29,093		20,692
of which taxes: EUR 8,208 k (prior year: EUR 907 k) within the framework of social security: EUR 669 k (prior year: EUR 378 k) due to affiliated companies: EUR 7,560 k (prior year: EUR 4,127 k)				1,271,577	1,259,436
Total equity and liabilities				**2,566,486**	**2,366,800**

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, 01 February 2024

Wegener, Actuary in Charge

Statement of Income

in EUR thousand	2023 1 January - 31 December			2022 1 January - 31 December
I. Technical account				
1. Premiums earned for own account				
a) Gross premiums written	3,041,437			3,135,943
b) Premiums ceded to reinsurance	2,697,826			2,832,778
		343,611		303,165
c) Change to the gross premium reserve unearned	-142,392			-286,407
d) Adjustment of reinsurers' share in gross premiums unearned	95,094			222,997
		-47,299		-63,410
			296,312	239,755
2. Other underwriting income for own account			219	8
3. Expenses on insurance claims for own account				
a) Insured event payments				
aa) Gross amount	1,435,917			1,215,992
bb) Reinsurers' share	1,279,422			1,095,516
		156,495		120,476
b) Changes to the loss and loss adjustment expense reserve				
aa) Gross amount	687,572			597,483
bb) Reinsurers' share	595,108			531,173
		92,464		66,310
			248,959	186,786
4. Expenses for insurance operations for own account				
a) Gross underwriting expenses		792,681		830,448
b) less: commissions and policyholder participation received for business ceded to reinsurance		821,082		874,597
			-28,401	-44,149
5. Other underwriting expenses for own account			6,268	8,860
6. Subtotal			69,706	88,265
7. Change to the claims equalisation reserve and similar provisions			24,091	23,809
8. Net technical result			45,615	64,456

in EUR thousand	2023 1 January - 31 December				2022 1 January - 31 December
II. Non-underwriting account					
1. Investment income					
a) Income from long-term equity investments		143			170
b) Income from other investments					
bb) Income from other investments	12,421				8,240
		12,421			8,240
c) Gains on disposal of investments		3,948			547
d) Income from reversals of impairment losses		220			
			16,733		8,956
2. Investment expenses					
a) Investment management expenses, interest expenses and other expenses related to capital investments		1,519			1,148
b) Impairment losses on investments, of which unscheduled depreciations according to Section 253 (3) clause 6 of the German Commercial Code (HGB) EUR 0 k (prior year: EUR 0 k)		14			1,078
c) Losses on disposal of investments		181			1,880
			1,714		4,106
			15,019		4,850
				15,019	4,850
3. Other Income			50,784		33,723
4. Other expenses			132,159		110,258
				-81,375	-76,535
5. Result from ordinary activities				-20,741	-7,228
6. Taxes on income and profit				9,008	7,752
7. Net loss for the year				-29,749	-14,980
8. Retained profit brought forward from prior year				1,925	14,830
9. Withdrawals from capital reserve				0	2,075
Net loss/profit				**-27,824**	**1,925**

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 statement of income.

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 recognised at cost less any depreciation at the lower fair value in accordance with Section 341b (1) clause 2 of the German Commercial Code (HGB) in conjunction with Section 253 (3) clause 5 HGB.

Loans to affiliated companies are measured at amortised cost in accordance with Section 341b (1) clause 2 HGB.

Shares, units or shares in investment funds and other non-fixed-interest securities as well as bearer bonds and other fixed-income securities are recognised under the strict lower of cost or market principle at the lower of acquisition cost or fair value, provided they are held as current assets. The requirement to reinstate original values is complied with (Section 341b (2) HGB in conjunction with Sections 255 (1) and 253 (1) clause 1, (4) and (5) HGB). If these securities are intended to serve business operations on an ongoing basis, they are valued in accordance with the provisions applicable to fixed assets using the moderate lower of cost or market principle (Section 341b (2) HGB in conjunction with Section 253 (3) HGB). Permanent impairments are amortised as profit or loss. In order to assess the existence of permanent impairment in relation to bearer bonds and other fixed-interest securities recognised as fixed assets, credit assessments of the issuers and rating developments are taken into account. The criteria recommended by the Insurance Committee of the IDW are used to determine whether an impairment is likely to be permanent, in particular for publicly traded units or shares in investment funds. Accordingly, a permanent impairment can always be deemed to exist if the fair value of a security is permanently more than 20% below the carrying amount in the six months preceding the reporting date and if the average value of the daily stock market prices in the last 12 months is more than 10% below the carrying amount. If the necessary information for a look-through approach is available, the assessment of the probable permanence of an impairment for units or shares in investment funds is based on the assets held in the fund, where there is an undisclosed burden on the investment unit as at the reporting date. In the case of securities acquired above or below par value, the difference is amortised over the term using the effective interest method. Bonds, registered bonds, promissory notes and loans are recognised at amortised cost (Section 341c (3) HGB). Investments are recognised at the purchase price or payout amount upon acquisition. The difference relative to the repayment amount is amortised using the effective interest method. Necessary depreciation is recognised in accordance with the moderate lower of cost or market principle (Section 341b (2) second subclause HGB in conjunction with Section 253 (1) clause 1, (3) clause 5 HGB).

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 amount. Allowances are made for impairments. 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) clause 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) clause 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 cedant 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 **claims 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 claims 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 1.83% with an assumed remaining term of 15 years. The pension provisions are 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) clause 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.

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.

Approximation and simplification methods

In order to be able to prepare the financial statements on time, the booking deadline for the underwriting data was brought forward by two months. In order to present the reporting period appropriately, the following approximation methods were applied:

when calculating the gross technical underwriting figures for direct and reinsurance business, the non-liquid changes in November and December were estimated. The estimates were calculated based on a history of previous financial statements. In addition, a technical plausibility check is carried out. In the following financial year, the posted estimates are compared with the actual figures and corrected using aggregated posting types if they were significantly too high or too low.

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. The volume amounts to EUR 193,859 k (prior year: EUR 241,755 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 statement of income.

Notes to the assets

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

in EUR thousand	2022	2023							
	Carrying amounts as at 31 December	Additions	Disposals	Transfer to current assets	Transfers	Reversals of impairment losses	Depreciation	Currency effects	Carrying amounts as at 31 Dec.
A. Intangible assets									
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	505	0	0	0	0	0	505	0	0
Total A.	**505**	**0**	**0**	0	**0**	**0**	**505**	**0**	**0**
B. I. Investments in affiliated companies and participating interests									
1. Shares in affiliated companies	101,548	0	0	0	0	0	0	-7	101,541
2. Loans to affiliated companies	2,978	4,980	0	-168	0	0	0	-189	7,601
3. Participating interests	2,089	0	485	0	0	0	0	2	1,606
4. Total B. I.	**106,615**	**4,980**	**485**	**-168**	**0**	**0**	**0**	**-193**	**110,748**
B. II. Other investments									
1. Stocks, shares or equity in investment funds and other non-fixed-income securities	45,471	3,409	2,039	0	0	0	0	0	46,842
2. Bearer bonds and other fixed-income securities	558,590	705,699	660,688	0	0	220	14	-8,145	595,662
3. Other loans									
a) Registered bonds	2,500	0	89	0	0	0	0	0	2,411
b) Promissory notes and loans	2,106	0	81	0	0	0	0	0	2,026
4. Deposits with credit institutions	9,934	120,726	124,449	0	0	0	0	-72	6,139
5. Total B. II.	**618,602**	**829,835**	**787,345**	**0**	**0**	**220**	**14**	**-8,218**	**653,080**
Total	**725,722**	**834,815**	**787,831**	**-168**	**0**	**220**	**519**	**-8,412**	**763,828**

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 14 k. Depreciation totalling EUR 19,657 k was not recognised, in accordance with Section 341b (2) HGB, as we assume that it will be recovered over its life cycle. The full amount of depreciation not recognised 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 2,567 k.

Details of shareholdings

Shares in affiliated companies and participating interests are listed below.

List of shareholdings 2023

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) HGB) in EUR thousand	Result of the past financial year in EUR thousand
Shares in affiliated companies				
Svedea AB, Stockholm	100	SEK	19,711	5,202
Danae Inc, Wilmington	100	USD	187	25
Participating interests				
VOV GmbH, Cologne	35.25	EUR	4,749	669
Dunstan AB, Jönköping	17.14	SEK	1,153	-1,171

SEK exchange rate as of 31 December 2023: 11.08960
USD exchange rate as of 31 December 2023: 1.10510

*

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

When determining the fair value of shares in affiliated companies, companies valued using the German discounted cash flow method are recognised as standard at the present value of future distributable financial surpluses (discounted earnings value).

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 the registered bonds and the promissory note receivables and loans are determined using a present value method with the aid of product and rating-specific yield curves. The spread premiums used take into account special structures e.g. deposit protection, guarantor liability and subordination.

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

in EUR thousand		Fair value 31 December 2023	Fair value 31 December 2022
I.	**Investments in affiliated companies and participating interests**		
	1. Shares in affiliated companies	101,541	101,548
	2. Loans to affiliated companies	7,601	2,978
	3. Participating interests	1,606	2,089
B. II.	**Other investments**		
	1. Stocks, shares or equity in investment funds and other non-fixed-income securities	48,012	51,005
	2. Bearer bonds and other fixed-income securities	581,367	531,213
	3. Other loans	4,437	4,606
	a) Registered bonds	2,411	2,500
	b) Promissory notes and loans	2,026	2,106
	4. Deposits with credit institutions	6,139	9,934
Total		**750,703**	**706,373**

Accrued and deferred items

in EUR thousand	2023	2022
Deferred interest and rents	3,995	3,445
Other accrued and deferred items	15,223	7,796
Total	**19,218**	**11,241**

Notes to equity and liabilities

Equity

Subscribed capital

The Company's share capital remained unchanged at EUR 121,600 k as of 31 December 2023. 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 153,072 k. During the financial year, the shareholder made contributions totalling EUR 19,000 k in accordance with Section 272(2) No. 4 HGB.

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 2023	31 December 2022	31 December 2023	31 December 2022	31 December 2023	31 December 2022
	Total		Of which gross provisions for outstanding claims		Of which claims equalisation reserve and similar provisions	
Direct insurance business						
Casualty insurance	81,044	47,905	52,219	31,376	-	-
Liability insurance	2,601,122	2,285,029	2,090,314	1,785,793	3,460	2,982
Motor third-party liability insurance	60,741	64,075	32,505	28,665	19,151	21,876
Other motor insurance	193,728	169,258	104,903	88,327	11,816	11,551
Fire and property insurance	1,042,691	1,069,042	705,401	757,734	8,159	21
Of which:						
Fire insurance	699,377	757,661	522,570	579,822	8,125	-
Comprehensive householders insurance	542	963	361	797	-	21
Homeowners insurance	5,769	5,730	5,396	5,396	34	-
Other property insurance	337,003	304,688	177,074	171,720	-	-
Marine and aviation insurance	624,831	455,718	466,934	296,009	4,997	6,702
Credit and collateral insurance	165,782	121,918	50,286	39,999	-	-
Legal protection insurance	139,211	100,752	69,173	54,151	5,105	-
Travel assistance insurance	6,960	3,582	3,311	638	-	-
Other insurance	282,010	206,814	152,504	105,315	-	-
Total	5,198,106	4,524,106	3,727,550	3,188,007	52,688	43,133
Reinsurance business assumed	713,629	630,981	526,132	449,746	57,560	43,024
Total insurance business	**5,911,735**	**5,155,087**	**4,253,682**	**3,637,754**	**110,248**	**86,157**

Other provisions

in EUR thousand	2023	2022
Provisions for pensions and other post-employment benefits	88	85
Provisions for taxes	5,748	789
Miscellaneous other provisions	30,132	27,489
Provisions for personnel expenses	5,937	15,715
Provisions for supplier invoices	727	9,171
Other provisions	23,468	2,603
Total	**35,968**	**28,363**

The difference barred from distribution pursuant to Section 253(6) clause 1 of the German Commercial Code (HGB) is EUR 1 k (prior year: EUR 2 k).

As of the reporting date, no assets were offset against corresponding liabilities at fair value. The acquisition costs amortised according to the lower of cost or market principle and, thus, the fair value within the meaning of Section 255(4) clause 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.

The increase in tax provisions is mainly due to the two permanent establishments in Australia and Canada. Due to growth and the transition to IFRS 17, both jurisdictions recognised an increase in taxable income. This increased the estimated tax expenditure for the 2023 assessment year, which is reflected in the increase in tax provisions.

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	2023 Germany	2023 EU/EEA	2023 Third countries	2022 Germany	2022 EU/EEA	2022 Third countries
Casualty insurance	3,543	46,311	37,150	3,340	28,074	16,311
Liability insurance	41,190	266,688	636,591	44,269	273,820	673,255
Motor third-party liability insurance	-633	4,619	19,348	5,383	4,079	32,899
Other motor insurance	-	94,597	97,103	-	93,519	94,425
Fire and property insurance	10,690	70,437	675,627	1,714	71,871	754,140
Of which:						
Fire insurance	504	37,416	423,402	-104	26,541	491,987
Comprehensive householders insurance	-252	-	104	373	-13	-
Homeowners insurance	-406	5,804	31	567	5,079	-
Other property insurance	10,844	27,217	252,090	878	40,264	262,153
Marine and aviation insurance	27,700	130,628	162,794	42,924	112,925	139,904
Credit and collateral insurance	-	4,159	83,382	-	624	58,783
Legal protection insurance	-	9,598	81,093	506	6,539	79,870
Travel assistance insurance	6,460	554	-	3,884	498	-
Other insurance	4,876	44,043	108,829	8,562	52,012	101,480
Total	**93,826**	**671,634**	**1,901,917**	**110,583**	**643,960**	**1,951,067**

Underwriting expenses for own account

in EUR thousand	2023	2022
Gross underwriting expenses	792,681	830,448
Of which acquisition costs	760,675	801,862
Of which administrative expenses	31,006	28,586
less: commissions and policyholder participation received for business ceded to reinsurance	821,082	874,597
Total	**-28,401**	**-44,149**

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

in EUR thousand/in pieces	2023 Gross premiums written	2023 Gross premiums earned	2023 Net premiums earned	2023 Gross expenses for claims	2023 Gross underwriting expenses	2023 Reinsurance balance	2023 Underwriting result (for own account)	2023 Number of insurance contracts concluded for at least one year
Direct insurance business								
Casualty insurance	87,004	74,566	6,071	43,170	26,897	1,081	3,397	18,599
Liability insurance	944,468	922,377	92,918	827,241	231,043	-142,210	5,236	437,079
Motor third-party liability insurance	23,334	27,347	2,009	30,727	5,770	-8,938	2,467	2,616
Other motor insurance	191,700	183,130	16,404	128,867	51,098	-117	2,819	465,225
Fire and property insurance	756,754	734,082	89,366	440,698	211,751	49,273	19,457	672,997
Of which:								
Fire insurance	461,321	467,087	40,608	293,847	137,176	16,503	7,695	331,727
Comprehensive householders insurance	-147	-182	-9	-352	-426	580	23	48
Homeowners insurance	5,429	5,425	547	4,100	819	362	108	3,356
Other property insurance	290,151	261,753	48,219	143,103	74,182	31,828	11,631	337,866
Marine and aviation insurance	321,123	317,518	28,272	330,771	85,421	-96,612	-657	105,946
Credit and collateral insurance	87,542	52,253	-3,319	15,657	26,561	11,384	-1,349	123,686
Legal protection insurance	90,691	72,913	7,701	26,618	39,338	6,381	-4,553	1,535,737
Travel assistance insurance	7,014	6,308	556	7,530	1,397	-2,483	-137	6,640
Other insurance	157,747	126,674	5,180	78,115	40,536	1,753	6,159	22,982
Total	2,667,377	2,517,167	245,158	1,929,326	719,815	-180,487	32,839	3,391,507
Reinsurance business assumed	374,060	381,878	51,155	194,093	72,866	87,607	12,776	0
Total insurance business	**3,041,437**	**2,899,045**	**296,312**	**2,123,490**	**792,681**	**-92,880**	**45,615**	**3,391,507**

in EUR thousand/in pieces	2022 Gross premiums written	2022 Gross premiums earned	2022 Net premiums earned	2022 Gross expenses for claims	2022 Gross underwriting expenses	2022 Reinsurance balance	2022 Underwriting result (for own account)	2022 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
Assumed reinsurance business	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

Investment income

in EUR thousand	2023	2022
1. Income from long-term equity investments	143	170
2. Income from other investments	12,421	8,240
3. Gains on disposal of investments	3,948	547
4. Gains from reversals of impairment losses	220	
Total	**16,733**	**8,957**

Investment expenses

in EUR thousand	2023	2022
1. Investment expenses, interest expenses and other expenses related to capital investments	1,519	1,148
2nd Impairment losses on investments	14	1,078
3. Losses on disposal of investments	181	1,880
Total	**1,714**	**4,106**

Unscheduled depreciations of EUR 14 k (prior year: EUR 1,078 k) were made on bearer bonds and other fixed-income securities pursuant to Section 253(4) of the German Commercial Code (HGB).

Taxes on income and profit

In view of its membership of the HDI V.a.G Group, HGS falls within the scope of the minimum tax rules applicable from 30 December 2023. However, as the legislation had not yet entered into force in the year under review, no actual income tax burden resulted from these provisions. The Company applies the exemption rule in accordance with Section 274(3) No. 1 HGB for recognising deferred tax assets and liabilities.

The group parent HDI V.a.G is currently in the process of assessing the impact of the Minimum Taxation Directive Implementation Act once the legislation comes into force. The initial assessment showed that an effective tax rate of more than 15% is expected for the German tax jurisdiction, meaning that no additional tax amount is currently expected at company level as a result of the Minimum Tax Act.

Commissions and other compensation for insurance agents, personnel expenses

in EUR thousand	2023	2022
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	643,980	660,985
2. Wages and salaries	57,312	54,309
3. Social security contributions and expenses for employee benefits	7,679	7,463
4. Expenses for retirement benefits	5,251	4,447
5. Total expenses	**714,222**	**727,204**

Other disclosures

Other income and other expenses include exchange rate gains of EUR 38,361 k (prior year: EUR 25,457 k) and exchange rate losses of EUR 46,777 k (prior year: EUR 34,835 k). The exchange rate effects in the year under review 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.

The average number of employees in the financial year was 501 (prior year: 445), of which 456 (prior year: 410) were full-time and 45 (prior year: 35) part-time employees.

The total remuneration of the members of the executive body amounted to EUR 2,616 k (prior year: EUR 2,340 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 for the second and third quarters. In addition, the solvency overview as of 31 December 2023 and audit procedures in connection with the Belgian guarantee fund and the Dutch terrorism pool were audited.

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

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

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

The executive management proposes that the net loss be carried forward to new account.

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.

Information on off-balance sheet transactions

We expect annual rental payments of about EUR 1,934 k (prior year: EUR 1,820 k) from long-term rental agreements for our locations.

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

Dr Christian Hermelingmeier
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 (up to 30 September 2023)
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

Dr Christian Hermelingmeier (since 1 October 2023)
Executive Director of HDI Global Specialty SE

David Hullin (since 1 October 2023)
Member of the Board of Management HDI Global SE

Hannover, 19 March 2024

Ralph Beutter   Thomas Barenthein   Andreas Bierschenk   Dr Christian Hermelingmeier   Richard Taylor