HDI

HDI Global SE

Annual Report 2016

HDI Global SE at a glance

		2016	2015
Gross premium income	EUR million	3,999	3,980
Increase/decrease in gross premium income	%	0.5	5.1
Income from premiums earned for own account	EUR million	1,937	1,785
Expenses on insurance claims for own account	EUR million	1,509	1,411
Loss ratio for own account[1)]	%	77.9	79.1
Expenses for insurance operations for own account	EUR million	431	455
Expense ratio for own account[2)]	%	22.3	25.5
Underwriting result before equalisation reserve for own account	EUR million	-9	-84
Combined ratio for own account[3)]	%	100.2	104.6
Investments	EUR million	6,661	6,600
Investment income	EUR million	285	256
Non-underwriting result [4)]	EUR million	223	151
Result from ordinary activities	EUR million	167	75
Tax expense/tax income (-)	EUR million	45	39
Profit transferred under a profit-and-loss transfer agreement	EUR million	68	27
Operating profit/loss (result from ordinary activities less changes in the equalisation reserve)	EUR million	215	67
Capital, reserves and underwriting provisions			
Equity	EUR million	407	407
Subordinated liabilities	EUR million	200	200
Equalisation reserve and similar provisions for own account	EUR million	599	551
Other underwriting provisions for own account[5)]	EUR million	5,389	5,213
Total	EUR million	6,595	6,371
Of earned premiums for own account	%	340.5	356.9
Ratio of underwriting provisions for own account[6)]	%	252.3	265.8
Insurance contracts	1,000	780	790
Reported claims	1,000	230	279
Average number of employees throughout the year	Number	2,679	2,563

1) Expenses on insurance claims for own account as a percentage of premiums earned for own account
2) Expenses on insurance operations for own account as a percentage of premiums earned for own account
3) Sum of expenses on insurance claims for own account and expenses on insurance operations for own account as a percentage of earned premiums for own account
4) Sum of net investment income and other comprehensive income
5) Excluding provision for premium refunds
6) Provision for outstanding claims for own account as a percentage of earned premiums for own account

For computational reasons, the tables may show rounding differences of +/- one unit count.

Contents

Dear shareholders,
Ladies and Gentlemen,

We look back on a positive financial year 2016. We generated very satisfactory earnings in both underwriting as well as non-underwriting. Considering the continued very intensive price competition on international industrial insurance markets and the persistent low interest rate environment, this is a gratifying result for the past financial year.

We may have posted only a low increase in gross written premiums of EUR 19 million to EUR 3,999 million, but this development corresponds to our philosophy of emphasising quality over quantity. In the past year we continued to focus on the profitability of our operations.

This is reflected in the underwriting result, which we increased considerably compared to the prior year. After an appropriation to the equalisation reserve in the amount of EUR 48 million (prior year: withdrawal of EUR 8 million), an underwriting result of EUR -56 (-76) million remained for our Company. The capital investment result rose to EUR 265 million from EUR 194 million in the previous year. Our operating result more than doubled year-on-year, increasing to EUR 167 million.

Our loss profile was also impressive, despite the fact that we were impacted by several natural disasters again in 2016. These included the storm “Elvira” over Central Europe, a hail storm over Texas in the USA and Hurricane “Matthew” in the Caribbean. In addition, “man-made losses” were incurred, like every year, as a result of technical and human failures on the part of our customers, and adjusted by us – some of which in the triple-digit millions. For example, a major fire at a company in the food industry. However, the burden as a result of major losses was lower overall than in 2015 – owing not only to chance. It is essentially also a result of our “Balanced Book” initiative with which we optimised our portfolio and realised an increased diversification of our risks in fire insurance in Germany: We partly reduced our share of the worst risks and in some cases also adjusted the insurance terms; at the same time, we increased our involvement with respect to medium risks. Accordingly, we brought about an overall reduction in the gross burden of losses with respect to fire insurance in the triple-digit million euro range in 2016 – a very gratifying result. Furthermore, in addition to our fire portfolio, we also successfully restructured our portfolio of fleet vehicles. Our combined ratio reflects these efforts, amounting to 100.2% (104.6%) on a net basis for 2016.

It has been our mission since we were established to always be there for our customers with insurance solutions in the face of technical innovations or industrial developments and we also feel obligated to this in times of digitalisation. At the same time, this is the basis for further profitable growth. For instance, to cite two examples, we now also offer our product Cyber+, which we developed in 2013 in particular for group customers, with the variation Cyber+ Smart for

medium-sized industrial businesses. This is intended to accommodate the rising number of losses as a result of cyber and/or computer crime. The same applies in analogy for our drone insurance, which has been available on the market since last year not only for companies but also for private drone owners.
For us, customer orientation also means that we intend to serve our customers locally using on a holistic approach. To this end, we consistently pursue a mid-market strategy in Germany and in foreign markets with specialised products and new regional locations, and continually expand our global network internationally. For example, we established a new location in Labuan, Malaysia, in the prior year and opened three new offices in Europe: in Glasgow, Genoa and Lyon. Meanwhile, we generate roughly 61 percent of our entire gross premium volume in foreign markets and 39 percent in our home market of Germany. The fact that our international locations underwrite more and more local business themselves, thereby growing organically and making HDI the leading industry insurer of their respective market, shows that we are heading in the right direction with our strategy. Our young company in Brazil is a good example of this.

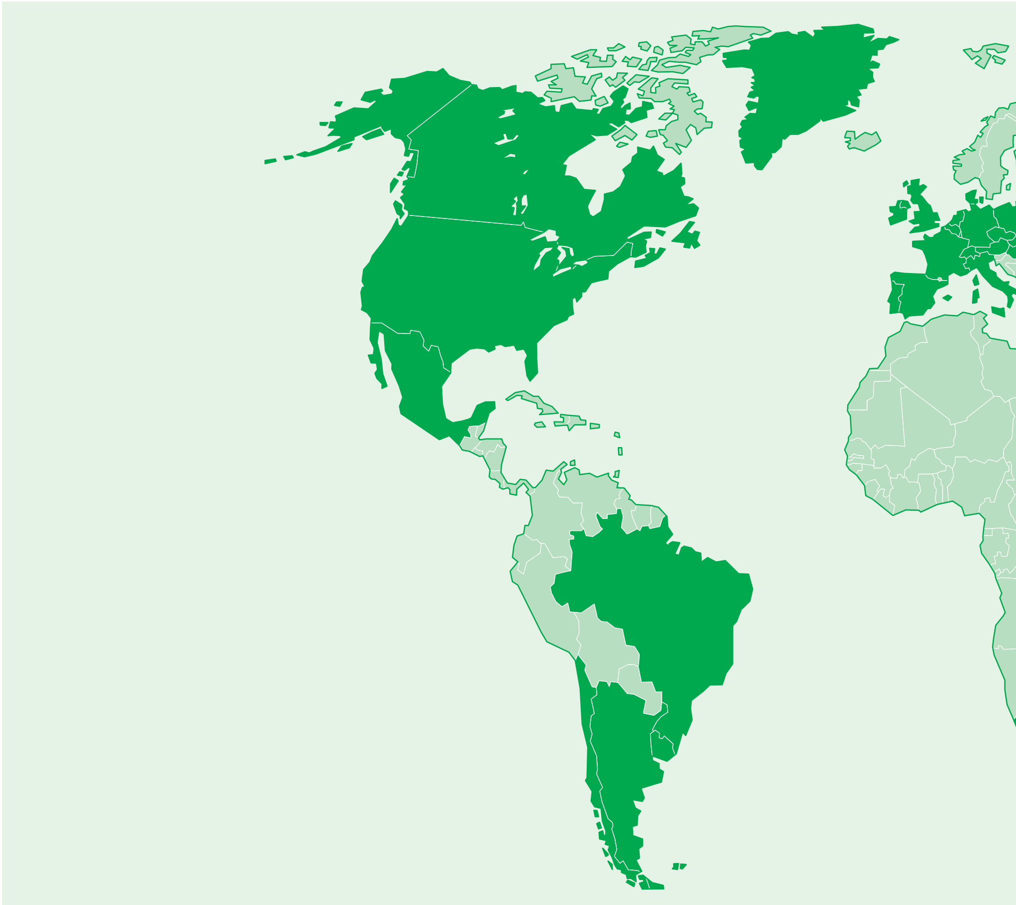
This success spurs us on. From this year on we also intend to increase our business volume in Germany. We are now expanding our successful “Balanced Book” initiative to our entire business in Germany and in foreign markets under the name “Balanced Portfolio” so that the growing portfolio remains profitable and balanced. In addition to profitable growth for HDI, optimising our efficiency and processes counts as one of our core themes. Our most important projects here are: a uniform system landscape by 2021 for all lines in Germany and in foreign markets (project one.BIZ); the creation of consistent and reproducible data for portfolio management (project one.DATA); and the improvement of the underwriting processes (project End2End). In addition to this “back-end digitalisation”, numerous projects are ongoing for the digitalisation and modernisation of our interface with business partners, for whom we intend to become faster and simpler.

Our numerous initiatives and projects only succeed with the support of our employees, whom I would like to thank in the name of the entire Board of Management for their commitment and their performance. We would also like to express our gratitude to our customers and brokers for their trust in our Company and their loyalty to us.

Sincerely,

Dr. Christian Hinsch
Chairman of the Board of Management of HDI Global SE

HDI worldwide*



Argentina
HDI Seguros S.A.
Buenos Aires

Australia
HDI Global SE
Sydney/Brisbane/Melbourne

Austria
HDI Versicherung AG
Vienna

Bahrain
HDI Global SE
Manama

Belgium
HDI Global SE
Brussels/Antwerp

Brazil
HDI Global Seguros S.A.
São Paulo

Canada
HDI Global SE
Toronto

Chile
HDI Seguros S.A.
Santiago

China
HDI Global SE
Hong Kong

Czech Republic
HDI Versicherung AG
Prague

Denmark
HDI Global SE
Copenhagen

France
HDI Global SE
Paris/Lyon

Germany
HDI Global SE
Hannover

Greece
HDI Global SE
Athens

Hungary
HDI Versicherung AG
Budapest

India
Magma HDI General Insurance Company Limited
Kolkata/Mumbai
(Joint venture)

Ireland
HDI Global SE
Dublin

Singapore
HDI Global SE
Singapore

Slovakia
HDI Versicherung AG
Bratislava

South Africa
HDI Global SA Limited
Johannesburg

Spain
HDI Global SE
Madrid/Barcelona

Switzerland
HDI Global SE
Zurich/Lausanne

Turkey
HDI Sigorta A.Ş.
Istanbul

United Kingdom
HDI Global SE
London/Birmingham/Manchester/Glasgow

USA
HDI Global Insurance Company
Chicago/Los Angeles

Vietnam
PVI Insurance Corporation
Hanoi
(minority interest)

Italy
HDI Global SE
Milan/Genova

Japan
HDI Global SE
Tokyo

Malaysia
HDI Global SE
Labuan

Mexico
HDI-Gerling de México Seguros, S.A.
Mexico City

The Netherlands
HDI Global SE
Rotterdam/Amsterdam

HDI-Gerling Verzekeringen
N.V. Rotterdam/Amsterdam

Poland
Towarzystwo Ubezpieczeń i
Reasekuracji
„WARTA“ S.A.
Warsaw

Russia
OOO Strakhovaya Kompaniya
„HDI Strakhovanie“
Moscow

*As at 20 March 2017

Representatives of the member groups of HDI V.a.G.

01 South German
Iron and Steel Industry
Dr Michael H Müller
Chairman of the Supervisory Board of
Saarstahl AG and the
stock corporation of Dillinger Hüttenwerke,
Lawyer,
Saarbrücken

Dr Benjamin Rieger
Managing Partner of
RUD Ketten Rieger & Dietz
GmbH u. Co. KG,
Aalen-Unterkochen

02 West German
Iron and Steel Industry
Dipl Kfm Bruno Gantenbrink
Personally liable partner of
BEGA Gantenbrink-Leuchten KG,
Menden

Richard A Hussmanns
Member of the Management Board of
OTTO FUCHS KG,
Meinerzhagen

03 North German
Iron and Steel Industry
Jürgen Stulz
Managing Director of
STULZ Holding GmbH and of
STULZ GmbH,
Hamburg

04 Steel Mills and Smelters
Ulrich Grillo
Chairman of the Board of Management of
Grillo-Werke AG,
Duisburg

05 Electrical, Precision Mechanics and Optical Industry
Prof Dr Ing Udo Bechtloff
Member of the Advisory Board of
KSG Leiterplatten GmbH,
Gornsdorf

Manfred Neubert
Chairman of the
Board of Directors of
SKF GmbH,
Schweinfurt

06 Companies in the South German Precious Metals and Non-precious Metals
Industry
Mag Heimo Hübner
Managing Director of
MS-Schramberg Magnet und Kunststoff-technik GmbH & Co. KG,
Schramberg-Sulgen

10 Mining Companies
Dr Jürgen Rupp
Member of the Board of Management of
RAG Aktiengesellschaft,
Herne

20 Chemicals Companies
Dr rer nat Helge Fänger
Chairman of the Supervisory Board of
Serumwerk Bernburg AG, Bernburg
(until 15 June 2016)

Dr Christof Günther
Managing Director of
InfraLeuna GmbH,
Leuna
(since 15 June 2016)

Dr Reinhard Uppenkamp
Chairman of the Board of Management of
Berlin-Chemie AG,
Berlin

30 Food Companies
Dipl Kfm Rainer Thiele
Chairman of the Advisory Board of
KATHI Rainer Thiele GmbH,
Halle (Saale)

31 Breweries and Malthouses
Alfred Müller
Managing Director of
Bitburger Holding GmbH and of
Bitburger Braugruppe GmbH,
Bitburg

38 Wholesale and Export Companies
Andreas Möbius
Managing Director of
VGA GmbH,
Berlin

40 Paper and Printing Companies
Dipl Ökonom Thomas Thumm
Member of the Management Board of
HERMA GmbH,
Filderstadt

55 Ceramics and Glass Companies
Dipl Kfm Nikolaus Wiegand
Managing Director of
Wiegand-Glas GmbH,
Steinbach am Wald

58 Medical and Welfare Services
Dr Andreas Tecklenburg
Vice President and Member of the Board of Directors responsible for the Patient Care Division of
Hannover Medical School (MHH),
Hannover

60 Wood and Lumber Companies
Dr Peter M. Hamberger
Managing Director of
Hamberger Industriewerke GmbH,
Stephanskirchen

70 Textile and Leather Companies
Dipl Kfm Heiko A. Westermann
Managing Partner of
ROY ROBSON FASHION
GmbH & CO. KG
Lüneburg

81 Building and Building Materials Industry
Christian Schnieder
Managing Partner of
GOLDBECK GmbH
Bielefeld

82 Banks, Insurance Companies, Administration, Liberal Professions
Walter Eßer
Lawyer,
Aachen

Dipl Ing Gerhard Heidbrink
Chairman of the Board of Management of
Extremus Versicherungs-AG,
Sehnde

Dr med Hans-Ulrich Küver
Neurologist and Psychiatrist,
Hannover

Dr Sandra Reich
Member of the Board of Management of
BÖAG Börsen AG,
Managing Director of
the Hamburg Stock Exchange
and the Hannover Stock Exchange
Hannover
(until 15 June 2016)

Peter Wölker
Lawyer,
Ostbevern

83 Transport and Shipping Industry
Michael Eggenschwiler
Chairman of the Board of Directors of
Flughafen Hamburg GmbH,
Hamburg

85 Energy and Utility Companies
Dipl Volkswirt Markus Scheib
Managing Director of
MiRO Mineraloelraffinerie
Oberrhein GmbH & Co. KG,
Karlsruhe

Governing bodies of the Company

Supervisory Board

Herbert Haas
Chairman
Burgwedel
Chairman of the Board of Management of
HDI Haftpflichtverband der Deutschen
Industrie V.a.G. and of Talanx AG

Dr Erwin Möller
Deputy Chairman
Hannover
Chairman of the Supervisory Board of
M. M. Warburg & Co. Gruppe GmbH

Dr Annette Beller
Kassel
Member of the Board of Management of
B. Braun Melsungen AG
(until 31.12.2016)

Ulrich Weber
Berlin
Member of the Board of Management of
Deutsche Bahn AG

Sebastian Gascard*
Isernhagen
Underwriter for
third-party liability insurance
HDI Global SE

Jutta Mück*
Oberhausen
Account manager
Sales medium-sized enterprises
("Mittelstand")
HDI Global SE

* Employee representative

Board of Management

Dr Christian Hinsch
Chairman
Burgwedel

Deputy Chairman of the
Board of Management of
HDI Haftpflichtverband der
Deutschen Industrie V.a.G and of
Talanx AG

Member of the Board of Management of
HDI Global SE
responsible for
- the Chairman duties as stipulated under the Rules of Procedure
- Internal Auditing

Dr Joachim ten Eicken
Member of the Board of Management of
HDI Global SE
responsible for
- Industrial property insurance line (operations/claims/safety engineering systems)
- Marine and credit insurance
- Supervision of HDI Risk Consulting GmbH

Frank Harting
Member of the Board of Management of
HDI Global SE
responsible for
- Aviation and Group accident insurance line
- IT-Demand
- Industry division
- Advisory Boards

Dr Edgar Puls
Member of the Board of Management of
HDI Global SE
responsible for
- European Operation
  Foreign branch offices - Continental Europe
- Industrial motor insurance line (operations/claims/safety engineering systems)

Dr Stefan Sigulla
Member of the Board of Management of
HDI Global SE
responsible for
- Industrial liability and legal protection insurance line (operations/claims/safety engineering systems)
- Corporate division

Jens Wohlthat
Member of the Board of Management of
HDI Global SE
responsible for
- Global operations
  excluding foreign branch offices - Continental Europe
- Coordination of general issues in the international industrial lines

Ulrich Wollschläger
Member of the Board of Management of
HDI Global SE
responsible for
- Accounting
- Premium Collections
- Investments
- Controlling
- Risk Management
- Coordination of passive reinsurance

Report of the Supervisory Board

The Supervisory Board monitored the conduct of the business by the Board of Management in the past financial year 2016 on a continuous basis in accordance with the law, the articles of association and rules of procedure and arranged for comprehensive information about the business performance and the financial position of the Company to be presented by the Board of Management in regular written and verbal reports. The Chairman of the Supervisory Board was further informed by the Chairman of the Board of Management about important developments and upcoming decisions on a regular basis.

The Supervisory Board convened for three ordinary meetings on 10 March 2016, 23 August 2016 and 3 November 2016. In the meetings, the reports of the Board of Management on the current financial year and the economic and financial performance of the Company were discussed in detail. As part of the written and verbal reporting, the Supervisory Board was also informed about the Company‘s risk position as well as any changes that had occurred together with their causes.

The Supervisory Board generally participated in the decisions of the Board of Management within the scope of its legal and statutory responsibility and assured itself that the management of the Company was conducted in a manner that was lawful, proper, appropriate and profitable. During the 2016 financial year, there was no occasion for the Supervisory Board to undertake examinations within the meaning of section 111(2) of the German Stock Corporation Act (*Aktiengesetz* - AktG).

The Supervisory Board‘s Personnel Committee convened for three meetings in the reporting period and made recommendations to the full Supervisory Board regarding resolutions, in particular with respect to the remuneration of the members of the Board of Management. With a view to section 86(1) AktG, horizontal and vertical remuneration aspects were applied in comparison and orientation.

Points of focus for the deliberations in plenary sessions
The focus of the Supervisory Board consultation included, among other things, the further implementation of the globalisation strategy, the continuation of the restructuring of European foreign units, the course of the restructuring activities and the initiated IT optimisation projects. Furthermore, the operational planning of the Company for financial year 2017 was discussed in detail.

To the extent that the transactions and measures taken by the Board of Management required the approval of the Supervisory Board in accordance with the law, the articles of association and the rules of procedure, resolutions to that effect were adopted after a review and deliberations.

The Supervisory Board satisfied itself that the internal control and risk management systems were performing well and received ongoing reports on this from the Board of Management.

Audit of the annual financial statements
The annual financial statements as at 31 December 2016 as well as the management report presented by the Board of Management, including the accounting, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The auditors were appointed by the Supervisory Board, which also awarded the specific audit engagement.

The audit did not lead to any reservations. The unqualified audit opinion states that the accounting and the annual financial statements present fairly, in all material respects, the net assets, financial position and results of operations, and that the management report is consistent with the annual financial statements. The documentation for the annual financial statements and the KPMG AG audit reports were forwarded to all Supervisory Board members on a timely basis.

The independent auditor was present at the meeting that discussed the annual financial statements and the management report to report on the conduct of the audit, and was available to the Supervisory Board to provide further information. The Supervisory Board discussed the annual financial statements prepared by the Board of Management, reviewed the audit report of the independent auditor, and addressed follow-up questions to the independent auditor on some specific points. The Supervisory Board arrived at the conclusion that the audit report was in compliance with sections 317 and 321 of the German Commercial Code (*Handelsgesetzbuch* - HGB) and that it did not raise any concerns. The Supervisory Board further concluded that the management report satisfied the requirements in section 289 HGB and conformed to the statements in the reports to the Supervisory Board pursuant to section 90 AktG. The management report was also consistent with the Supervisory Board's own assessment of the Company's position.

In accordance with the final result of the review of the annual financial statements and the management report undertaken by the Supervisory Board, we concurred with the auditor's opinion and approved the annual financial statements as prepared by the Management Board on 9 March 2017, which are thereby adopted. The management report, and in particular the statements made therein regarding the future development of the Company, were also approved.

Composition of the Supervisory Board and the Board of Management

The composition of the Board of Management did not change in the 2016 reporting period. Dr Beller resigned from the Supervisory Board effective 31 December 2016. The election of a successor for Dr Beller is planned for the annual general meeting on 9 March 2017, at which the new election of the shareholder representatives on the Supervisory Board is also scheduled.

The Supervisory Board wishes to thank the members of the Board of Management and all employees for their commitment and contribution during the reporting period.

Hannover, 9 March 2017

For the Supervisory Board

Herbert K Haas
(Chairman)

Management report

Preliminary remarks

The extraordinary General Meeting held on 27 October 2015 resolved the transformation of HDI-Gerling Industrie Versicherung AG into a European company (Societas Europaea, SE) named "HDI Global SE". The relevant entry was recorded in the commercial register on 8 January 2016.

Basic principles of the Company

Business operations

The Company
HDI Global SE is part of the Talanx Group and bundles the worldwide operations in the Industrial Lines Division. It is a wholly owned subsidiary of Talanx AG headquartered in Hannover, Germany.

For decades, HDI Global SE has been one of the leading insurance providers of corporate groups, industry and small and medium-sized enterprises in Germany. As a strong and expert partner, the Company covers the need for tailor-made insurance solutions for industrial and commercial customers from the trade, production and service sectors. Beyond its prominent presence in the German market, the Company conducts significant activities in more than 130 countries through foreign branch offices, subsidiaries and sister subsidiaries as well as a network of partners. A strategic goal of HDI Global SE is the globalisation and thus the expansion of the Company to a global player for industrial lines. This includes the fact that the HDI brand traditionally is an established lead insurer for complex risks in the European core market and now transports this image and the corresponding expertise from a company history spanning over 100 years into identified target regions and hence the worldwide presence is expanded. Two additional branch offices were established in Denmark and Malaysia in the financial year. The Company is thus able to offer its customers local policies for their global operations, which ensure that the established service and insurance protection is extended for all covered risks world-wide.

From third-party liability, motor insurance, accident as well as fire and property insurance to marine, financial lines and engineering insurance: HDI Global SE offers the complete range of products for the coverage of entrepreneurial risks. Global coverage in the form of international insurance programmes demonstrates in particular our operational capabilities.

Report on economic position

Macroeconomic and industry-specific environment

Macroeconomic development
The global economy got off to a turbulent start in 2016. Emerging markets were concerned at the beginning of the year about the development of the Chinese economy and the continuation of the decline in commodity prices. However, the recovery of commodity prices, the stabilisation of economic growth in China and global monetary policy support provided for increasing stabilisation over the course of the year. In the developed world, consumer spending remained the core driver of growth, supported by low energy prices and expansive monetary policies, despite political uncertainties in particular in the United States, the United Kingdom and Italy.

The economy in the eurozone expanded by 0.3% in both the second and third quarter, while the annual rate of inflation was 1.1% in December. The positive development in the labour market continued and unemployment in the eurozone fell in November to its lowest level since 2009 (9.8%) despite the political and economic uncertainties associated with the British EU exit referendum and the Italian Prime Minister’s resignation. Germany’s gross domestic product (GDP) grew by 0.2% in the third quarter after an increase of 0.4% to 0.7% in the first half of the year. In addition to consumer spending as a growth driver, rising government spending contributed to the recovery. At 4.8% in October 2016, the unemployment rate also fell in the United Kingdom to its lowest level since 2005.

After a weak start to the year 2016, the US economic trend was relatively robust over the further course of the year. The annualised growth rate in the third quarter was 3.5% –the strongest growth in two years; annual inflation climbed to 2.1% at the end of the year. Here as well, consumer spending is the central driver of growth that is supported by a solid labour market trend. The weakening of economic growth in China continued. The annual growth rate of the GDP was 6.6% in 2016, after growth of 7.0% in 2015. Monetary and fiscal policy measures prevented a clearer weakening of growth.

Capital markets
Capital markets continued to be characterised by expansive monetary policies in 2016. In March of the year under review, the European Central Bank (ECB) once again loosened its monetary policy: It lowered the interest rate on the Eurosystem's main refinancing operations as well as the deposit rate, added corporate bonds to its purchase programme, increased the monthly bond purchases to EUR 80 billion and announced four new longer-term refinancing operations. The ECB may have announced a reduction of its monthly bond purchases from EUR 80 billion to EUR 60 billion in December, but it simultaneously extended the duration of the programme by nine months to the end of 2017.

Bond markets were also primarily determined by the European Central Bank over the course of 2016. In addition, there was a series of macroeconomic issues as well as various political decisions that had an influence on the trend in these markets. These included concerns about slowing growth momentum in China and other emerging markets at the beginning of the year. Under political considerations, bond markets focused on the decisions regarding the Brexit, the US election and the Italian constitutional referendum. An increase in volatility was always perceivable in the run-up to the decisions, but the unexpected results affected the markets for only a short time in each case; for example, the decline in yields for German government bonds following the vote on Brexit. Due to the results of the election in the USA, there was a positive counter-reaction in the eurozone. The US central bank raised its key interest rate for the second time since the financial crisis in December 2016, referring to an improved labour market and signals of higher inflation. This moderate interest rate increase did not yet provide a signal for euro bond markets; consequently, interest-bearing securities ended the year on a positive note owing to falling interest rates and decreasing risk premiums. In the US markets, the results of the election and positive economic expectations provided for clearly rising interest rates at the end of the year – 10-year US Treasuries even rose by more than 70 basis points to nearly 2.6% and, at their peak, exhibit an interest rate gap of approximately 230 basis points with 10-year German government bonds.

In addition to the general interest-rate policy environment, idiosyncratic risks and various M&A activities were also in the foreground in 2016. Following the weakness in the first quarter, energy securities and commodities showed a considerable price recovery. The focus remained on bail-in regulation and capitalisations in the banking sector, in particular at Italian Banks. Legal risks continued to be a very current topic for banks. The primary market continued to display robust activity, but a slight decrease compared to the prior year's volume was once again recorded. In particular corporate bonds with longer durations, issuers from the higher interest-bearing segment and subordinated bank issues were in demand. Covered bonds exhibited an average level of new issue activity. As in the prior year net issuance was slightly negative.
Stock markets increased considerably in the fourth quarter following a weak start to the year 2016 and ended the market year positively: The DAX rose by 6.9% in the full year, the S&P 500 by 9.5%. The EURO STOXX 50 performed considerably weaker – albeit positively – at 0.7% and the Nikkei at 0.4%.

International insurance markets
As a whole, premium growth in international property and casualty insurance in 2016 saw a slowdown. Real growth in the developed insurance markets declined. In the emerging markets there may have been a slight increase compared to 2015, but it remained below the average annual rate of growth for the preceding five years.

After a series of major earthquakes, storms and floods, the losses from natural disasters were considerably higher in the year under review than in the three previous years. The most expensive loss event was a series of strong earthquakes on the Japanese island of Kyushu. The results of the insurers' operations continued to be under pressure due to the persistently low interest rate level. As a result, overall profitability in international property and casualty insurance deteriorated compared with the prior year.

German insurance industry
After strong premium growth in the prior year, the German insurance industry saw a repeat of this development in 2016, albeit at a somewhat lower level. Over the course of the phase of sustained low interest rates, this points to the continuation of disciplined underwriting on the part of property and casualty insurers; the increases can be attributed to rising premiums.

The balance of property insurers in 2016 for payments as a result of the consequences of natural disasters was at a similar level as in the prior year. Around half of the losses alone were caused by the two low pressure systems "Elvira" and "Friederike" that appeared shortly one after the other at the end of May and the beginning of June with numerous thunderstorms and persistent rainfall. These two storms are the most expensive heavy rain events to date in Germany. The net combined ratio for the entire property and casualty insurance line fluctuated at the prior year's level.

Legal and regulatory environment

In order to protect their customers and to ensure the stability of the financial markets, insurance companies (primary insurers and reinsurance companies), banks and capital investment companies worldwide are subject to special, complex legal regulations. The previous years were characterised – in particular in light of the financial crisis in the years 2007 to 2010 – by an intensive further development and thus an associated tightening and increasing complexity of the regulatory requirements for the supervised companies.

With the entry of the new Insurance Supervision Act into force in the Federal Republic of Germany and the delegated legal acts on the part of the European Commission on 1 January 2016, this development has now reached its temporary peak. As a result of the implemented Solvency II directive a three pillar approach is being followed. Pillar 1 (quantitative) governs details regarding the required capital endowment for insurance companies. The companies can either rely on a legally stipulated standard model or use their own internal model to calculate their specific capital requirements. Talanx uses a partial internal model for the Group as well as the Group's major insurance companies that was approved by the Federal Financial Supervisory Authority (BaFin) in November 2015 and which was expanded with respect to its applicability to the level of individual insurance companies to include the major German life insurance companies with a notice of approval by the BaFin as of October 2016.

Pillar 2 relates to the qualitative risk management system and includes in particular requirements for the insurance company's business organisation. Reporting requirements for insurance companies are governed under Pillar 3, in particular reporting requirements to supervisory authorities and the public. In addition, reforms related to the supervision of insurance groups have been introduced as a result of the implementation of Solvency II that will also have an impact on the Talanx Group. For example, there has been a group supervisor since 1 January 2016, within whose framework the BaFin as the national insurance supervisor of the top-level parent company (and group supervisory authority), the national supervisory authorities of the respective foreign group companies and the European Insurance and Occupational Pensions Authority (EIOPA) work together in a common college of supervisors.

Supervisory regulation continues at the same swift pace even after the new Insurance Supervision Act entered into force. Just six months after taking effect, the Insurance Supervision Act was supplemented by the Act Amending Financial Market Regulations (*Finanzmarktnovellierungsgesetz*; FiMaNoG), which took effect on 2 July 2016, and section 23(6) of the Insurance Supervision Act was newly added. Insurance companies are now obligated to set up an internal whistleblower system in which employees can anonymously report certain violations within the company. The Talanx Group has had such a whistleblower system in place for a long time.

By publication in the Federal Gazette dated 21 April 2016, the Federal Ministry of Finance had utilised the authority granted under the new VAG to issue new decrees and replaced the regulations repealed at the end of 2015 with new regulations.

In connection with the Solvency II implementation, the European Insurance and Occupational Pensions Authority (EIOPA) also continues to publish numerous guidelines and technical implementation standards as well as corresponding consultation documents. The BaFin published numerous interpretative decisions in the recent months in order to concretise the regulatory requirements. The scope of these publications and their level of detail are leading industry-wide to a substantial – in some cases confusing – increase in the number of – in some cases highly detailed – regulatory frameworks as well as time and again to contradictions with documents published by the EIOPA itself or the interpretative decisions on the part of the BaFin.

Against the background of the Insurance Distribution Directive (IDD) to be implemented in Germany by 23 February 2018, the EIOPA published its preparatory guidelines for internal Product Oversight and Governance (POG) in a final report in April 2016. The guidelines are geared toward the sufficient consideration of consumer aspects with respect to product design and distribution management, but are not limited strictly to consumer business. They are directed at the responsible supervisory authorities. The BaFin announced that it would not take these provisions into account until the Insurance Distribution Directive is implemented in Germany. This would apply for the contents of the EIOPA guidelines, but also for the delegated legal act regarding product development that the European Commission will issue. It can already be foreseen that insurance companies as well as insurance brokers will be confronted with additional requirements with respect to the supervision and governance of insurance products as a result of the implementation of the IDD as well as the associated guidelines.

On 19 October 2016, the BaFin presented a revised draft for the "Minimum Requirements for the Business Organisation of Insurance Undertakings" (*Aufsichtsrechtliche Mindestanforderungen an die*

Geschäftsorganisation von Versicherungsunternehmen; MaGo) for public consultation. The MaGo is directed at all primary insurers and reinsurance companies subject to the Solvency II Directive as well as to insurance holding companies. By means of the MaGo, the relevant VAG provisions for business organisation and the Delegated Regulation (EU) 2015/35 should be carried over to the BaFin's supervisory practices and the EIOPA guidelines regarding the governance system should be implemented. Specifically, the requirements for the areas of general governance, key functions, the risk management system, own funds requirements, the internal control system, outsourcing and emergency management are paraphrased more precisely. Areas in which the BaFin has already published separate guidelines, such as the requirements for professional qualifications and reliability or the Prudent Person Principle, are not covered by the MaGo.

Insurance companies of the Talanx Group rely heavily on the collection of personal data. These data are collected, processed and utilised, among other things, to process applications, execute contracts and provide benefits in order to advise insurance policy holders according to their needs. The employees of the companies of the Talanx Group are thus aware of the responsibility associated with appropriately handling personal data. Protecting the rights of insurance policy holders and the protection of their private sphere are primary objectives of all Group companies. In May 2016, the EU General Data Protection Regulation entered into force by publication in the Official Journal of the European Union. After the expiration of a two-year transitional phase, the regulation will also become applicable law in the Federal Republic of Germany beginning 25 May 2018. Against this backdrop, a project was initiated in order to ensure the timely implementation of the new statutory requirements. Legal uncertainties arise in connection with this project because it is not foreseeable to what extent the German legislature may yet adopt deviations under the regulation's nearly 50 opening clauses in the wake of an amendment of the Federal Data Protection Act (*Bundesdatenschutzgesetz*; BDSG).

The UCITS V Implementation Act (*OGAW-V-Umsetzungsgesetz*), which transposes the provisions of the fifth Directive on Undertakings for Collective Investment in Transferable Securities (Fünfte Richtlinie über Organismen für gemeinsame Anlagen in Wertpapieren [OGAW]), took effect in March 2016. The UCITS V Implementation Act not only entails changes that were required by the regulation, it creates a substantial need for the Talanx Group's capital investment companies to adapt and, along with the German Investment Tax Reform Act (*Investmentsteuerreformgesetz*; InvStRefG) adopted in 2016, the need to take further comprehensive action in this area is already looming on the horizon.

Compliance with applicable laws remains a requirement for the permanently successful operations of the companies of the Talanx Group. The companies pay close attention in particular to adhering to regulatory frameworks as well as to continuously adapting and further developing the business and its products to statutory reforms. The correspondingly installed mechanisms ensure that future legal developments and their effects on the companies' own operations are identified and assessed early in order to make the necessary adjustments.

Business performance

Customers of HDI Global SE

Insurance business as a whole

	2016	2016	2015	2015
EUR million	Gross	Net	Gross	Net
Premiums	3,999	1,967	3,980	1,794
Premiums earned	3,963	1,937	3,971	1,785
Expenses for insurance claims	2,389	1,509	3,234	1,411
Expenses for insurance operations	773	431	769	455
Underwriting result for own account		-56		-76
In %				
Loss ratio	60.3	77.9	81.4	79.1
Expense ratio	19.5	22.3	19.4	25.5
Combined ratio	79.8	100.2	100.8	104.6

HDI Global SE recorded an overall increase in gross written premiums of EUR 19 million to EUR 3,999 (3,980) million in the reporting period. As expected, the crucial factor for this development was an increase of EUR 91 million in premiums in the international business. In addition to satisfactory portfolio increases in the foreign markets, the branch in Denmark that was newly established in the financial year also contributed to the positive trend with an increase in premiums of EUR 33 million. The domestic market had to post a decrease in gross written premiums of EUR 72 million, which can be attributed primarily to restructuring activities, in particular in the motor insurance and all-risk insurance lines.

Gross premiums for the financial year (total)

EUR million, %		
Liability insurance	1,215	30.4
All-risk insurance	1,132	28.3
Engineering insurance	391	9.8
Marine and aviation insurance	384	9.6
Motor insurance	367	9.2
Fire insurance	201	5.0
Casualty insurance	141	3.5
Other insurance	168	4.2
Total	**3,999**	**100.0**

Net premiums earned increased considerably more than gross premiums by EUR 152 million to EUR 1,937 (1,785) million.

Compared to the prior period, considerably lower reinsurance premiums, which can essentially be attributed to a sharp decrease of EUR 187 million in expenses for reinstatement premiums in the liability insurance line, were crucial for this development. The one-time-only remeasurement of the provisions for claims for major losses incurred but not yet reported (“IBNR ”) contributed to this, through which the gross and reinsurance reserves as well as provisions for reinstatement premiums were reduced nearly without any impact on profit or loss.

Gross expenses for insurance claims decreased significantly as expected in the year under review by EUR 845 million to EUR 2,389 (3,234) million. Claims expenses for the financial year fell sharply compared to the prior period by EUR 468 million to EUR 3,183 (3,651) million. The prior year was characterised primarily by major losses such as the accumulation event “Tianjin”, in particular in the marine insurance line. In addition, the reported run-off profit increased considerably by EUR 376 million compared to the prior period and amounted to EUR 793 (417) million, which can be explained primarily by the reversal of provisions for claims incurred but not yet reported (“IBNR”) in the liability insurance line and due to the positive loss run-off of a major loss in the business accepted for reinsurance in the all-risk insurance line. The gross loss ratio declined by 21.1 percentage points to 60.3% (81.4%).

Net expenses on insurance claims rose by EUR 98 million to EUR 1,509 (1,411) million. The reason for this was the reinsurers’ significantly lower share of gross loss expenses compared to the prior year. In the prior period, the reinsurers had participated to a large extent in the increased gross expenses for claims as a result of the aforementioned major losses. The reinsurers also participated disproportionately in the aforementioned gross run-off profit. The net loss ratio decreased by 1.2 percentage points to 77.9% (79.1%) and thus correspondingly less than on a gross basis.

Gross expenses for insurance operations rose moderately by EUR 4 million to EUR 773 (769) million. At 19.5% (19.4%), the expense ratio remained nearly stable on a gross basis and therefore better than expected and fell to 22.3% (25.5%) on a net basis due to the premium trend. The combined ratios reflected the development described above, amounting to 79.8% (100.8%) on a gross and to 100.2% (104.6%) on a net basis.

After an addition of EUR 48 (withdrawal of 8) million to the equalisation reserve, an increased net underwriting result in the amount of EUR -56 (-76) million remained for our Company, as expected.

Liability insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	866	542	842	343
Premiums earned	853	511	838	337
Expenses for insurance claims	403	349	792	297
Expenses for insurance	148	85	149	88
Underwriting result for own account		-13		-36
In %				
Loss ratio	47.2	68.2	94.5	88.2
Expense ratio	17.4	16.7	17.7	26.0
Combined ratio	64.6	84.9	112.2	114.2

Liability insurance mainly covers commercial general liability (CGL). In addition, the special lines, personal, pharmaceutical, planning, medical malpractice and nuclear facility liability insurance lines and pecuniary loss liability insurance for governing bodies as well as the US casualty business currently being liquidated are presented under this item.

Gross written premiums in the industrial liability insurance line increased by a total of EUR 24 million to EUR 866 (842) million in the financial year. A slight decrease in premiums in Germany was overcompensated by the growth in premiums in foreign markets. In addition to satisfactory portfolio growth in nearly all foreign markets, the branch newly established in Denmark also contributed EUR 25 million to the positive development.

Net premiums earned rose by EUR 174 million to EUR 511 (337) million and thus at a faster rate than gross premiums. Compared to the prior period, considerably lower reinsurance premiums, which can be attributed to a sharp decrease of EUR 144 million in expenses for reinstatement premiums, were crucial for this development. This was caused by one-time-only remeasurement of the provisions for claims for major losses incurred but not yet reported ("IBNR") through which the gross and reinsurance reserves as well as provisions for reinstatement premiums were reduced nearly without any impact on profit or loss. In addition, the new reinsurance regime provides for voluntary reinstatements beginning with the current financial year.

Gross expenses for claims incurred declined sharply by EUR 389 million to EUR 403 (792) million. Claims expenses for the financial year decreased by EUR 32 million to EUR 630 (662) million, given the unremarkable business performance with low expenses from major losses. The crucial factor for the development of gross expenses was a significantly improved run-off result in the amount of EUR 228 million compared to the prior year (prior year: run-off loss of EUR 130 million) that in addition to a positive loss experience resulted mainly from the reversal of provisions for claims incurred but not yet reported. The gross loss ratio fell accordingly by significant 47.3 percentage points to 47.2% (94.5%).

Net expenses for insurance claims rose by EUR 52 million to EUR 349 (297) million. The reason for this was the reinsurers' considerably lower share of gross expenses for claims compared to the prior year, since the reinsurers had participated to a large extent in the run-off profits due to the reversal of gross provisions for claims incurred but not yet reported. The net loss ratio declined by 20.0 percentage points and was at 68.2% (88.2%).

Expenses for insurance operations amounted to EUR 148 (149) million on a gross basis and EUR 85 (88) million on a net basis. The gross expense ratio reflected a decrease to 17.4% (17.7%). The net expense ratio decreased more sharply to 16.7% (26.0%), which resulted mainly from the aforementioned increase in net premiums. The combined ratio reflected the developments described above and was equal to 64.6% (112.2%) for the gross ratio and 84.9% (114.2%) for the net ratio.

After allocating EUR 91 (prior year: withdrawing 12) million to (from) the equalisation reserve, the liability insurance line shows a net underwriting result in the amount of EUR -13 (-36) million.

Fire insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	180	80	188	68
Premiums earned	175	77	190	69
Expenses for insurance claims	302	129	310	105
Expenses for insurance operations	34	16	39	20
Underwriting result for own account		-68		-51
In %				
Loss ratio	172.4	166.8	163.4	152.4
Expense ratio	19.5	20.8	20.5	28.5
Combined ratio	191.9	187.6	183.9	180.9

Gross premium income from industrial fire and fire business interruption insurance declined in the financial year to EUR 180 (188) million. The decrease in premiums can be largely attributed to restructuring activities in Germany during the financial year. Net premiums earned increased by EUR 8 million and were equal to EUR 77 (69) million. As a result of the lower expenses for reinstatement premiums and lower costs for non-proportional reinsurance contracts, reinsurance premiums decreased sharply compared to the prior year.

Gross expenses on insurance claims for the financial year declined by EUR 8 million to EUR 302 (310) million. Claims expenses for the financial year fell by EUR 55 million and at EUR 346 (401) million remained clearly below the prior year’s level despite a burden due to some major losses. This was influenced to a large extent by major losses and shock losses. The run-off result decreased to EUR 44 (90) million, whereby the prior year was characterised by some larger run-off profits. The gross loss ratio rose by 9.0 percentage points to 172.4% (163.4%).

Net expenses on insurance claims rose by EUR 24 million to EUR 129 (105) million. The reason for this was reinsurers' lower share of the gross loss expenses for the financial year. In the prior year, a higher loss share exceeding the priority was ceded in optional and non-proportional reinsurance. The net loss ratio climbed by 14.4 percentage points to 166.8% (152.4%).

Gross expenses for insurance operations decreased to EUR 34 (39) million in the financial year just ended. The gross expense ratio declined to 19.5% (20.5%). Expenses for own account decreased to EUR 16 (20) million. The net expense ratio fell to 20.5% (28.5%). The combined ratio reflected the development described above, increasing to 191.9% (183.9%) on a gross and to 187.6% (180.9%) on a net basis.

On balance, this resulted in a net underwriting result of EUR -68 (-51) million, which included a withdrawal from the equalisation reserve in the amount of EUR 6 (12) million.

Motor insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	348	310	378	338
Premiums earned	346	308	376	336
Expenses for insurance claims	290	264	315	289
Expenses for insurance operations	61	53	67	59
Underwriting result for own account		-14		28
In %				
Loss ratio	83.7	85.7	83.9	85.9
Expense ratio	17.7	17.2	17.8	17.5
Combined ratio	101.4	102.9	101.7	103.4

Gross written premiums in the motor insurance line fell to EUR 348 (378) million in the financial year. The decrease in premiums that set in during the prior year, substantially characterised by restructuring activities in Germany, continued in the financial year. Growth in foreign markets was only able to partially compensate the decrease in premiums. Net premiums earned matched the trend for gross premiums earned, declining by EUR 28 million to EUR 308 (336) million.

Gross expenses on insurance claims decreased by EUR 25 million and were equal to EUR 290 (315) million. The smaller portfolio in the financial year was essential for the development, which was reflected in claims expenses for the financial year that decreased by EUR 20 million to EUR 325 (345) million. A cluster of major losses in the reporting period was only partially compensated by a restructuring-related decrease in claims expenses for the financial year. In addition, the motor insurance line reported a higher run-off profit of EUR 35 (30) million. At 83.7% (83.9%), the gross loss ratio decreased slightly below the prior year's level.

Net expenses for insurance claims fell to EUR 264 (289) million, thereby essentially tracking the development of gross expenses. The net loss ratio dipped slightly to 85.7% (85.9%).

Gross expenses for insurance operations decreased by EUR 6 million and were equal to EUR 61 (67) million. Thus, together with the simultaneous decrease in gross premiums, the gross expense ratio fell slightly to 17.7% (17.8%). The net expense ratio was 17.2% (17.5%). The combined ratio reflected the development described above, declining to 101.4% (101.7%) on a gross and to 102.9% (103.4%) on a net basis.

After additions to the equalisation reserve in the amount of EUR 5 (withdrawal in the amount of 39) million, the overall net underwriting result for the financial year was EUR -14 (28) million.

Marine and aviation insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	285	205	302	206
Premiums earned	285	206	305	211
Expenses for insurance claims	250	187	396	205
Expenses for insurance operations	65	58	67	57
Underwriting result for own account		-37		-17
In %				
Loss ratio	87.6	91.0	129.9	97.0
Expense ratio	23.0	28.2	21.9	27.1
Combined ratio	110.6	119.2	151.8	124.1

Gross written premiums for marine and aviation insurance decreased to EUR 285 (302) million in the financial year. The crucial factor was a decrease in premiums in the amount of EUR 16 million in the aviation line, which can be attributed in particular to the withdrawal from the airline business. The marine line had to record a slight decrease in the reporting period in the amount of EUR 1 million. Moving in parallel with gross premiums, net premiums earned amounted to a total of EUR 206 (211) million.

Total gross expenses on insurance claims declined by EUR 146 million to EUR 250 (396) million. Gross expenses in the aviation insurance line fell by EUR 106 million to EUR 1 (107) million. This was substantially due to sharply lower claims expenses for the financial year in the amount of EUR 13 (117) million, whereby the prior year was significantly characterised by three major losses in the airline segment. In addition, the aviation line had to record a slightly improved run-off result of EUR 12 (10) million. Gross loss expenses in the marine insurance line fell by EUR 40 million to EUR 249 (289) million. This was caused by significantly lower claims expenses for the financial year in the amount of EUR 252 (355) million. The prior period was characterised by a higher burden of claims due to the accumulation event “Tianjin”. The run-off result of EUR 3 (65) million, which had decreased compared to the prior year, was characterised primarily by appropriations for reserves required retroactively for several major losses of the prior year. On balance, the gross loss ratio decreased significantly by 42.3 percentage points to 87.6% (129.9%).

Net expenses for insurance claims decreased more moderately than gross expenses by EUR 18 million to EUR 187 (205) million. This was caused by sharply lower shares of reinsurance in gross expenses for insurance claims, since it had been possible in the prior period to pass on a large share of the gross claims expenses for major losses in the marine and aviation insurance lines to reinsurers. The net loss ratio fell in total to 91.0% (97.0%).

Gross expenses for insurance operations decreased to EUR 65 (67) million in the financial year just ended. The expense ratios rose on a gross basis to 23.0% (21.9%) and on a net basis to 28.2% (27.1%). The combined ratio reflected the aforementioned developments and decreased overall on a gross basis to 110.6% (151.8%) as well as on a net basis to 119.2% (124.1%).

After withdrawing EUR 3 (35) million from the equalisation reserve, the net underwriting result for the financial year was EUR -37 (-17) million.

Engineering insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	273	141	265	133
Premiums earned	263	133	248	119
Expenses for insurance claims	176	84	144	84
Expenses for insurance operations	58	25	57	24
Underwriting result for own account		22		10
In %				
Loss ratio	66.9	62.8	57.9	70.5
Expense ratio	22.1	18.6	22.9	20.1
Combined ratio	89.0	81.4	80.8	90.6

The engineering insurance lines encompass insurance for machinery, installation, construction services, existing structures, electronics and machinery warranties, as well as the respective associated business interruption insurances.

Gross written premiums in the engineering insurance line grew year-on-year to EUR 273 (265) million. This positive trend was generated primarily in Germany as a result of new business in the offshore segment. The international business remained overall at the prior year's level. Net premiums earned amounted to EUR 133 (119) million.

Gross expenses on insurance claims for the financial year rose by EUR 32 million to EUR 176 (144) million. Claims expenses for the financial year increased by EUR 6 million to EUR 181 (175) million as a result of several medium-sized losses in the financial year. In addition, the engineering insurance line had to record a EUR 26 million year-on-year decrease in the run-off result to EUR 5 (31) million. The lower run-off result can be attributed to higher claims incurred but not yet reported as well as to necessary retroactive appropriations for reserves. The gross loss ratio climbed by 9.0 percentage points to 66.9% (57.9%).

At EUR 84 (84) million, net expenses for insurance claims remained nearly constant, as the reinsurers participated disproportionately in the gross run-off losses due to the reinsurance structure. The net loss ratio decreased by 7.7 percentage points to 62.8% (70.5%) due to the premium trend.

Expenses for insurance operations rose to EUR 58 (57) million on a gross basis and to EUR 25 (24) million on a net basis. Due to the change in premiums, the expense ratios decreased to 22.1% (22.9%) on a gross basis and to 18.6% (20.1%) on a net basis. The combined ratios reflected the developments described above and were equal to 89.0% (80.8%) for the gross ratio and 81.4% (90.6%) for the net ratio.

As a result of positive business performance, the engineering insurance line reported an increased net underwriting profit in the amount of EUR 22 (10) million.

Casualty insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	130	92	115	84
Premiums earned	129	92	117	86
Expenses for insurance claims	78	62	79	62
Expenses for insurance operations	28	22	26	21
Underwriting result for own account		5		4
In %				
Loss ratio	60.6	67.3	67.7	71.6
Expense ratio	22.1	23.6	22.1	24.4
Combined ratio	82.7	90.9	89.8	96.0

The casualty insurance line includes the general accident, motor accident, clinical trials and aviation accident insurance classes. By far the largest share of gross premium income is attributable to the general accident insurance class, which is, in turn, driven by group accident insurance.

In the financial year, the casualty insurance line achieved an increase in gross written premiums by EUR 15 million to EUR 130 (115) million. The development is substantially determined internationally by growth in a large fronting account as well as in the primary business in group accident insurance. Net premiums earned increased by EUR 6 million and amounted to EUR 92 (86) million.

Gross expenses on insurance claims fell slightly to EUR 78 (79) million. Higher claims expenses for the financial year in the amount of EUR 95 (86) million, which were characterised in particular by a higher burden of losses in the international business as well as in Germany in the group accident insurance class, were compensated by the run-off result of EUR 17 (7) million, which had increased compared to the prior year. The run-off result increased primarily as a result of one-time-only run-off profits in the international business and in Germany in the group accident insurance class. The clinical trials insurance class contributed to the improved run-off result with a run-off profit of EUR 2 million owing to a positive loss experience without larger retroactive appropriations for reserves. Owing to the favourable change in premiums, the overall gross loss ratio improved by 7.1 percentage points to 60.6% (67.7%).

Net expenses for insurance claims remained virtually constant at EUR 62 (62) million. The net loss ratio decreased by 4.3 percentage points to 67.3% (71.6%) due to the positive premium trend.

Expenses for insurance operations rose moderately to EUR 28 (26) million on a gross basis and EUR 22 (21) million on a net basis. At 22.1% (22.1%), the gross expense ratio remained at the prior year’s level. The net expense ratio dipped slightly to 23.6% (24.4%). The combined ratios reflected the developments described above and fell to 82.7% (89.8%) for the gross ratio and 90.9% (96.0%) for the net ratio.

After an addition to the equalisation reserve in the amount of EUR 1 million (withdrawal in the amount of 81 thousand), an overall net underwriting profit remained for the financial year in the amount of EUR 5 (4) million.

All-risk insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	499	115	490	121
Premiums earned	501	114	487	123
Expenses for insurance claims	263	107	428	139
Expenses for insurance operations	87	36	80	38
Underwriting result for own account		-30		-54
In %				
Loss ratio	52.5	94.3	87.9	113.2
Expense ratio	17.3	32.0	16.4	30.8
Combined ratio	69.8	126.3	104.3	144.0

The all-risk business includes the insurance classes all-risk property insurance and all-risk business interruption insurance.

In the financial year, the all-risk insurance line achieved an increase in gross written premiums by EUR 9 million to EUR 499 (490) million. This development can primarily be attributed to satisfactory premium growth in foreign markets, whereby premium growth was curbed by restructuring activities in Germany. Net earned premiums declined by EUR 9 million to EUR 114 (123) million. This was caused by an increase in reinsurance premiums due to increased premiums in the non-proportional reinsurance.

Gross expenses on insurance claims for the financial year declined by an appreciable EUR 165 million to EUR 263 (428) million. The crucial factor was claims expenses for the financial year, which had decreased sharply compared to the prior year by EUR 105 million to EUR 388 (493) million. The prior year was substantially characterised by a significant major loss. In addition, the all-risk insurance line reported an increase in the run-off result of EUR 59 million to EUR 124 (65) million. Owing to a positive claims trend, the overall gross loss ratio improved significantly by 35.4 percentage points to 52.5% (87.9%).

Net expenses for insurance claims decreased more moderately than gross expenses by EUR 32 million to EUR 107 (139) million. The share of reinsurance in gross expenses decreased sharply compared to the prior period. In the prior year, some of the expenses for the financial year's major losses could be passed on to the reinsurers. In addition, the reinsurers participated substantially in the positive run-off of a major loss. The net loss ratio fell by 18.9 percentage points to 94.3% (113.2%).

Expenses for insurance operations increased in the financial year to EUR 87 (80) million on a gross basis and decreased to EUR 36 (38) million on a net basis. The expense ratios rose on a gross basis to 17.3% (16.4%) and on a net basis to 32.0% (30.8%). The combined ratios reflected the developments described above and were recorded at 69.8% (104.3%) for the gross ratio and 126.3% (144.0%) for the net ratio.

Due to the positive business performance, the all-risk insurance line reported an increased net underwriting result in the amount of EUR -30 (-54) million.

Other insurance

Direct written insurance business

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	162	89	155	96
Premiums earned	158	87	153	95
Expenses for insurance claims	71	45	79	46
Expenses for insurance operations	42	28	42	30
Underwriting result for own account		9		20
In %				
Loss ratio	45.2	51.3	51.4	48.1
Expense ratio	26.9	31.8	27.6	31.2
Combined ratio	72.1	83.1	79.0	79.3

Those insurance classes that, in light of their business volumes, are not required to be reported separately, are combined under other insurance. The most important aspects of this line of business relate to industrial risks in the extended coverage (EC) insurance classes. Furthermore, the multi-line and multi-risk products as well as the legal protection and crisis management classes, which are available across all insurance lines, are included in the other insurance line.

On balance, gross written premiums in the other insurance line grew year-on-year to EUR 162 (155) million. The increase in premiums includes nearly all classes. Only the insurance class extended coverage had to record a slight decrease in premiums of EUR 1 million. Net premiums earned dropped to EUR 87 (95) million. The crucial factor was a considerable increase in reinsurance premiums in the multi-risk line, which resulted primarily from a change in the reinsurance structure. Whereas in the prior year only a non-proportional structure was brought to bear, quota share reinsurance was taken into account in the financial year.

Total gross expenses on insurance claims declined by EUR 8 million to EUR 71 (79) million. The crucial factor was claims expenses for the financial year, which had decreased by EUR 8 million to EUR 107 (115) million. At EUR 36 (36) million, the run-off result for the other classes remained at the prior year's level. The gross loss ratio fell overall by 6.2 percentage points and amounted to 45.2% (51.4%) due to the positive business trend.

Net expenses for insurance claims decreased less than gross expenses to EUR 45 (46) million. The net loss ratio rose overall to 51.3% (48.1%).

At EUR 42 (42) million, gross expenses for insurance operations remained nearly the same. The gross expense ratio declined to 26.9% (27.6%). Net expenses for insurance operations fell slightly by EUR 2 million to EUR 28 (30) million. The net expense ratio rose slightly to 31.8% (31.2%). The combined ratios reflected the developments described above and were equal to 72.1% (79.0%) for the gross ratio and 83.1% (79.3%) for the net ratio.

After an appropriation to the equalisation reserve in the amount of EUR 4 million (withdrawal of EUR 1 million), an overall underwriting result of EUR 9 (20) million was recorded in the other insurance classes.

Business accepted for reinsurance

	2016	2016	2015	2015
EUR millions	**Gross**	**Net**	**Gross**	**Net**
Premiums	1,256	415	1,245	404
Premiums earned	1,253	408	1,257	410
Expenses for insurance claims	556	282	691	186
Expenses for insurance operations	248	108	242	119
Underwriting result for own account		69		21
In %				
Loss ratio	44.4	69.1	55.0	45.4
Expense ratio	19.8	26.4	19.3	29.1
Combined ratio	64.2	95.5	74.3	74.5

he business accepted for reinsurance predominantly represents the share of foreign premiums from international insurance programmes for which HDI Global SE acts as the lead or sole underwriter for its customers in Germany and abroad. The ceding companies in these cases are foreign units of HDI Global SE and subsidiaries of the Talanx Group, that have written fronting policies in the respective countries in accordance with the specifications of HDI Global SE as well as the direct subsidiary HDI Global Network AG (formerly HDI-Gerling Welt Service AG).

Other sources of our indirect insurance business are the reinsurance of captives of German and selected international key accounts as well as the central underwriting, in Hannover, of international risks of large foreign companies.

The gross premium income of the business accepted for reinsurance in the financial year was equal to EUR 1,256 (1,245) million. The major part of this total, or EUR 633 (651) million, was attributable to the all-risk insurance line (including business interruption), followed by liability at EUR 350 (345) million and engineering insurance line at EUR 118 (118) million. The individual insurance lines were marked by a variety of factors. The decrease in premiums in the all-risk insurance line due to restructuring activities in Germany was over-compensated by premium growth, primarily in the marine and aviation insurance lines as well as in liability insurance. Net premiums earned dropped to EUR 408 (410) million. The crucial factor was a considerable decrease in reinsurance premiums in the liability insurance line, which can be explained by a decrease in expenses for reinstatement premiums in the amount of EUR 43 million.

Gross expenses on insurance claims for the financial year declined significantly by EUR 135 million to EUR 556 (691) million. Claims expenses for the financial year decreased to EUR 845 (903) million. The decrease resulted primarily from a lower burden from major losses compared to the prior period. The prior year was influenced in particular in the marine insurance line by the accumulation event “Tianjin”. In addition, a run-off profit of EUR 288 (212) million was reported that was clearly higher than in the prior period. The positive loss run-off of a major loss in the all-risk insurance line, which had a significant impact on the run-off result, was important here. The gross loss ratio fell by 10.6 percentage points to 44.4% (55.0%).

Net expenses for insurance claims increased by EUR 96 million and amounted to EUR 282 (186) million. The reason for this was the reinsurers’ considerably lower share of gross expenses for claims. The reinsurer’s run-off was considerably higher than in the comparison period, which can be explained mainly by a high level of participation on the part of reinsurers in the gross run-off profit of the major loss in the all-risk insurance line. The net loss ratio rose considerably by 23.7 percentage points and was at 69.1% (45.4%).

Expenses for insurance operations rose by EUR 6 million to EUR 248 (242) million on a gross basis. The gross expense ratio rose to 19.8% (19.3%). Net expenses decreased to EUR 108 (119) million. The net expense ratio fell by 2.7 percentage points to 26.4% (29.1%).

In total, the business accepted for reinsurance showed a net underwriting result of EUR 69 (21) million. This includes a withdrawal in the amount of EUR 44 (an addition of 92) million from (to) the equalisation reserve.

Business accepted for reinsurance
All-risk insurance

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	633	178	651	208
Premiums earned	631	180	654	210
Expenses for insurance claims	227	99	351	145
Expenses for insurance operations	117	45	115	42
Underwriting result for own account		42		28
In %				
Loss ratio	36.0	54.9	53.7	68.8
Expense ratio	18.6	24.9	17.6	20.1
Combined ratio	54.6	79.8	71.3	88.9

Business accepted for reinsurance
Liability insurance

	2016	2016	2015	2015
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	350	147	345	83
Premiums earned	343	137	341	81
Expenses for insurance claims	148	128	152	-3
Expenses for insurance operations	65	35	65	40
Underwriting result for own account		-11		-23
In %				
Loss ratio	43.2	92.8	44.6	-4.0
Expense ratio	19.0	25.7	19.1	49.2
Combined ratio	62.2	118.5	63.7	45.2

Branch office report

Branches as representative offices of HDI Global SE in foreign markets

HDI Global SE maintains branches in the most important foreign target markets in order to offer international customers a direct presence. HDI Global SE thereby develops additional growth opportunities outside of the domestic German market both in new markets as well as in new customer segments. The foreign branches represent a central component of HDI Global SE's strategy in foreign markets.

Branches of HDI Global SE

Branch	2016	2016	2015	2015
Mio. EUR/number	**Gross prem.**	**Employees***	**Gross prem.**	**Employees***
Germany, Hannover	2.238	1.810	2.310	1.773
France, Paris	320	110	319	100
United Kingdom, London	239	94	220	87
Switzerland, Zürich	220	93	206	91
Belgium, Brussels	191	85	188	79
The Netherlands, Rotterdam	164	141	161	134
Spain, Madrid	142	94	137	92
Italy, Milan	126	67	129	64
Hongkong, China	63	27	61	22
Australia, Sydney	63	43	59	39
Japan, Tokio	52	28	43	21
Canada, Toronto	35	16	40	15
Denmark, Copenhagen	33	24	0	0
Norway, Oslo	31	18	38	18
Greece, Athens	27	20	26	19
Singapore	26	17	21	12
Bahrain, Manama	17	9	15	9
Ireland, Dublin	11	5	8	4
Malaysia, Labuan	1	0	0	0
Total	**3.999**	**2.701**	**3.980**	**2.579**

**Active core employees as at the reporting date*

Key processes in individual branches

HDI Global SE has operated a branch in Denmark since 1 January of the financial year. The Danish market was previously serviced by the subsidiary HDI-Gerling Verzekeringen N.V. in the Netherlands. In 2014, the renewal rights of the business of HDI-Gerling Verzekeringen N.V. were sold to the parent company HDI Global SE. The new business was taken over by the branch of HDI Global SE effective on the reporting date 1 January 2016. The run-off remained in HDI-Gerling Verzekeringen N.V. .

The approval to operate a branch in Labuan (Malaysia) was granted by the local supervisory authority, Labuan FSA, on 11 February 2016. The business operations of the Labuan branch were taken over in April of the financial year.

The renewal rights of the Norwegian blue water hull business that is managed by the branch in Norway (Oslo) were sold to a third party acquirer effective 1 January 2017. Consequently, the Norwegian branch is liquidating the underwriting business effective upon this date and underwrites no more new contracts.

In the financial year, the following new regional offices were set up: Lyon (French branch), Genua (Italian branch), Glasgow (UK branch) and Brisbane (Australian branch). The Swiss branch will run an office in Bern beginning 1 January 2017.

Significant changes in the gross premiums of individual branches

Gross premiums in the UK branch increased by EUR 19 million to EUR 239 (220) million. Additions in the liability insurance line as well as new acquisitions in the motor insurance line were the major drivers of the increase in premiums. In addition, the portfolio was expanded from new distribution channels in the fire insurance line.

Gross premiums in the Swiss branch increased by EUR 14 million to EUR 220 (206) million. The Swiss branch posted premium growth in the casualty insurance line from existing customer relationships. This branch also benefited from programme expansions with major customers in the fire insurance line.

Non-insurance business

Investment result

Current-year investment income for the reporting period, which was mainly attributable to coupon payments on fixed interest securities was equal to EUR 273 (224) million. This compares to current-year expenses in the amount of EUR 15 (17) million. The current result amounted to EUR 258 (207) million. The sustained, low interest rate level – in particular in the eurozone – led to further decreases in income from fixed-income securities, since portfolio optimisations could not offer adequate compensation taking an appropriate amount of risk into account. Net income from real estate and other investments in financial year 2016 considerably exceeded the prior year's result. The special bond fund, EuroRent 3, HDI Global SE's largest special fund, distributed ordinary and extraordinary income in the financial year just ended as well as retained profits brought forward from prior years..

The average rate of return was 3.9% (3.2%).

Net realised gains on the disposal of investments for the year under review were equal to EUR 8 (14) million. This result comprises the gains from the disposal of securities in the area of bonds (EUR 10 million) and equities (EUR 1 million); this was offset by losses incurred from the disposal of fixed-income securities (EUR -2 million) and stock funds (EUR -1 million).

The cumulative balance of write-downs and reversals thereof amounts to EUR -1 (-27) million.

Overall, a miscellaneous result in the amount of EUR 7 (-13) million had to be reported.

The investment result amounted to a total of EUR 265 (194) million. This increase was greater than expected and was characterised by the additional dividend distributions from the bond special fund. The total net return for the reporting period reached 4.0% (3.0%).

Other comprehensive income

The other comprehensive income in the financial year was EUR -42 (-43) million. Compared to the prior year, the financial year was characterised by EUR 5 million less in write-downs of receivables as well as EUR 9 million less in interest expenses. The net balance of exchange rate gains and losses for the financial year was a net loss of EUR -2 (18) million.

Extraordinary result

The extraordinary result of EUR -54 (-0.9) million mainly reflects the full funding – to a large extent – of provisions for pensions in accordance with the German Accounting Law Modernisation Act (BilMoG) in the amount of EUR 54 million.

Comprehensive income of HDI Global SE

	2016	**2015**
EUR million		
Underwriting result for own account	-56	-76
Total investment income (incl. underwriting interest income)	265	194
Other comprehensive income	-42	-43
Result from ordinary activities	**167**	**75**
Extraordinary result	-54	-9
Taxes	45	39
Net profit/loss transferred to Talanx AG	**68**	**27**

As expected, an improved result of EUR 68 (27) million was transferred to the parent company of HDI Global SE, Talanx AG, in the financial year based on the existing profit-and-loss transfer agreement.

Net assets and financial position

Investments

The volume of investments (excluding deposits retained) of HDI Global SE grew by EUR 57.9 million in 2016 to a total of EUR 6,592 (6,534) million by the end of the year.

Fixed-interest investments (loans to affiliated companies, loans to long-term investees and investors, bearer bonds and other fixed-interest securities, loans guaranteed by mortgages, land charges and annuity land charges, registered bonds and notes receivable and loans) that are held directly in a portfolio had a total volume of EUR 3,846.1 million at the end of the year, which corresponded to a share of 58.1% (60.9%) of the total investments. Additional significant investment categories included bond funds at 16.5% (15.4%) as well as participations and investments in affiliated companies at 17.1% (15.8%). Investments in fixed-income securities included in particular bearer bonds with good credit ratings. The quality of the fixed-interest securities remained unchanged from the prior year with an average rating of A (A). The portfolio of bond funds was increased to EUR 1,090 (1,009) million through the reinvestment of a distribution from the special bond fund EuroRent 3 as well as investments in additional bond funds.

The real estate portfolio increased by EUR 25 million to EUR 125 (100) million, in particular due to the purchase of new properties.

The carrying amounts of investments in affiliated companies and other long-term equity investments increased in the reporting period and amounted to EUR 1,126 (1,033) million at the end of the year. The carrying amounts of the investees HDI AI EUR Beteiligungs-GmbH & Co. KG (formerly: HG-I Alternative Investments Beteiligungs-GmbH & Co. KG), Cologne, and HDI AI USD Beteiligungs-GmbH & Co. KG (formerly: HG-I AI USD Beteiligungs-GmbH & Co. KG), Cologne, increased by a total of EUR 89 million to EUR 568 million as a result of the successive capitalisation on the part of HDI Global SE. The investments in private equity, infrastructure and indirect properties, which in turn represent a focus of the investments, are managed in particular over these companies. A participation in a European infrastructure fund in the amount of EUR 6 million was also acquired. In addition to this expansion of the investment fund vehicle, investments were also made in particular in our foreign units.

The fixed-term deposit portfolio decreased further also due to the current interest rate situation and amounted to EUR 82 (171) million at the end of the year.

The currency effect resulting from the translation of portfolios maintained in foreign currencies as at 1 January of the financial year amounted to EUR 22.9 million and the investments had to be stated at a correspondingly higher amount. In addition, the portfolios decreased by EUR 4.8 million in the financial year as a result of exchange rate fluctuations.

The market value of the investments as at the balance sheet date was equal to EUR 7,156 (7,003) million. The increase resulted from the portfolio and market trend.

Equity (fully paid in)

The Company's capital stock still amounts to EUR 125 million. It is divided into 125,000 registered shares with no par value.

Subordinated liabilities

The EUR 200 million in subordinated liabilities relate to two subordinated loans. The lenders are HDI Versicherung AG, Hannover, with a loan amount of EUR 20 million and HDI Lebensversicherung AG, Cologne, with a loan amount of EUR 180 million. Both loans provide for a fixed interest period lasting until 12 August 2021 with a coupon of 4.25%. After this date, the variable interest rate will be calculated based on the three-month Euribor plus a margin of 7.17%. The subordinated loans cannot be terminated early by the borrower until 12 August 2021 at the earliest.

Underwriting provisions

Underwriting provisions rose by EUR 226 million to EUR 5,998 (5,772) million. This line item primarily includes provisions for unsettled insurance claims in the amount of EUR 4,886 (4,744) million. Our Company operates on an international scale and therefore recognises underwriting liabilities in foreign currencies. The impact of exchange rate movements on the level of provisions for losses recognised as at 1 January of the financial year as determined by the translation of provisions denominated in foreign currencies at reference date exchange rates was an increase of EUR 25 million in the total amount to be recognised as provision for losses. The movement of underwriting equity and liability items denominated in foreign currencies are covered by matched foreign currency items on the asset site on an ongoing basis.

Financial position

The Company realises incoming cash flows from ongoing premium income, investment income and the return flows from investments of capital. According to the current liquidity planning, which covers projected changes in liquidity for the coming twelve months, the cash flows required to meet current payment obligations is assured.

In addition, a profit-and-loss transfer agreement is in effect with Talanx AG.

Other balance sheet items

The composition of the above, as well as other line items on the balance sheet, is set out in the notes to the financial statements.

Personnel and social report

HDI Global SE's personnel management aims to ensure the present and future success of the Company, even – and in particular – in a challenging market environment. All personnel-related policy measures are oriented towards the strategic goals of HDI Global SE and of the Talanx Group. A high degree of professionalism, a high level of commitment, creativity and flexibility are the key requirements for the employees.

In the competition for excellent young professionals and qualified specialists, as well as in the strategic development of employees and their successful loyalty and commitment to the Company, personnel-related processes and services are constantly being further developed, while the effectiveness and efficiency of these programs are also improved. Human resources, personnel marketing, initial vocational training and personnel development are key elements of personnel management.

Company employee training
In order to locate talented individuals and ensure their loyalty and commitment to the Company, HDI Global SE continues to focus on the development of its own young professionals by means of classic initial vocational training or as part of a dual study programme.

In addition, HDI Global SE has also conducted trainee programmes since 2010 through which the participants receive a basic qualification as the underwriter of an insurance line, i.e. third-party liability, motor , marine, engineering insurance or property insurance. The trainees that go through this one-year training are deployed as needed to branches all over Germany. The trainee programme is sub-divided into various portions that focus on training in special areas and methods and are each completed with a period of practical training.

Personnel marketing
Personnel marketing is tasked, among other things, with raising the awareness of qualified and motivated employees for HDI Global SE. The objective is to present the Company as a multi-faceted and attractive employer.

In addition to the classic professions of the insurance industry, which tend to emphasise law and business administration, industrial insurers also continue to focus on people with skills in one of the MINT fields, i.e. with a qualification in mathematics, informatics, natural sciences, or technology. In order to reach these target groups directly, the Company focuses, among other things, on a targeted presence at relevant job fairs and events, both at universities as well as in its own firm. This way, the departments have the opportunity to engage directly with the participants and concretely present both their areas as well as their work. Editorial contributions, field reports and interviews with employees of HDI Global SE in academic and career magazines enable targeted readers to become better acquainted with the various professional fields and career prospects.

Personnel development
As part of personnel development, employees of HDI Global SE and the entire Group can expand or augment their expertise in potential, area and management development programmes in order to prepare themselves to take on functions with more responsibility. In orientation programmes, they subsequently receive support to establish themselves in the newly assumed responsibilities. The programmes continue to be very important for the development and loyalty of talented individuals.

In order to work even more successfully in sales, a comprehensive qualifications action was carried out in order to more optimally sell strategically important products.

Personnel deployment
From the perspective of the Company, the mobility of our employees was very important also in 2016. During long-term deployments, our specialists and managers make an important contribution to expanding our global business by undertaking key tasks in foreign markets. Employees at headquarters completed multi-month deployments ("shadowing") at a foreign branch in the past financial year in order to further intensify the international collaboration.

International projects for the strategic further development of HDI Global SE enable our employees at foreign branches to work at headquarters in Hannover for a period of time and to gather international experience. The deployment guidelines adopted by the Group's Board of Management ensure both an optimal structure for foreign deployments as well as the consideration of the individual needs of the employee.

Diversity Management
The diversity of employees is also part of HDI Global SE's corporate identity. The employees contribute their various talents on all continents for the success of the business and the satisfaction of the customers. The fact that many different corporate cultures come together lies in the nature of the international business.

Women and men of all ages with a wide variety of backgrounds work at HDI Global SE. A corporate culture characterised by respect, appreciation and mutual acceptance is cultivated. The goal is to provide not only for a working atmosphere characterised by openness and integration, but also to actively and consciously take advantage of diversity in order to maintain and further increase the success and competitiveness of the Group and the companies. Diversity Management therefore also means the creation of conditions that enable everyone to fully develop their individual potential, talent and capabilities independent of origin, age, experience or personal living situation. The focus thereby lies mainly on the action fields of demographics, gender and migration. Appropriate measures for this include flexible working time models as well as the active support of daycare after the return from parental leave.

HDI Global SE also pledges to support equal opportunities and would like to further increase the number of women in managerial positions. Under a mentoring programme, women are supported in their advancement into higher management positions. In order to prevent a lack of female managers, an effort is made to bring about a balanced level of diversity when hiring trainees.

Remuneration

HDI Global SE offers its employees attractive remuneration models and plans to link them increasingly to the sustainable development of the business. Remuneration for senior executives currently comprises a fixed and variable, performance-based component. The weighting between these components is derived based on the level of responsibility and function associated with the respective position, which is determined based on a standard job evaluation system throughout the Company. The size of the variable remuneration component is determined through the achievement of personal and corporate goals.

Establishment of an SE works council

In the course of the transformation into a European stock corporation (Societas Europe – SE), a European employee representative was established along with the SE works council.

Employees of the European countries in which HDI Global SE has a branch office or a subsidiary and deals with cross-border matters that relate to HDI Global SE are represented in the SE works council. The Board of Management and the SE works council regularly exchange information about relevant topics during meetings.

The currently existing bodies representing the employees and their rights have not changed as a result of the establishment of the SE works council.

Key employee indicators

In the reporting year, the average annual headcount for HDI Global SE was 2,679 (2,563) employees. The average age of the employees was 44.5 (44.4) years, while the length of service averaged 16.0 (16.0) years. The part-time employment ratio was 14.2% (13.0%).

The Board of Management of HDI Global SE would like to express its thanks to all of the employees for their personal commitment and contribution to the Company's positive results. The Board would also like to thank all social partners for their constructive collaboration.

Non-financial performance indicators

HDI Global SE
In recent years, HDI Global SE has become an increasingly global provider of insurance solutions for industrial and corporate customers. As a result of the name change carried out in January 2016 and the associated transformation of the legal form into an SE, the HDI brand has successfully established itself on the market. Currently, more than half of the premium volume is already generated in foreign markets, with Europe as the core market. In the past financial year, HDI Global SE further consolidated the global network. International insurance programmes are already available in 37 countries over foreign branch offices, subsidiaries and sister subsidiaries as well as joint ventures. HDI Global SE is present in around 100 other countries in collaboration with long-term network partners who have proven themselves in practice.

In light of the increasing regulatory requirements on the part of policy holders differentiated by country, the issue of compliance is receiving more and more attention. HDI Global SE customers can turn to their designated contact persons at HDI Global SE for help with these compliance issues as well as for all aspects of insurance coverage. In the event of a loss they benefit from professional claims management and can rely on comprehensive security support – as in their home market.

HDI Risk Consulting GmbH (HRC)
HDI Risk Consulting GmbH supports medium-sized enterprises, industrial companies and groups in loss prevention and in the establishment of operational risk management.

Thanks to the worldwide uniform presence under the HRC brand, customers have access to qualified and standardised services in the area of risk consulting across insurance lines. The specialists at HDI Risk Consulting GmbH offer companies significant added value in matters of loss prevention.

Together with approximately 180 engineers and natural scientists in various fields of study, the HDI Global SE subsidiary is developing special instruments to assess risk and concepts suited to minimise and prevent risk. The Risk Engineering Network is represented internationally in 21 countries in the areas fire, motor, engineering insurances and marine insurances.

one.BIZ
one.BIZ aims for harmonised, optimised processes and IT systems. This is regarded as a basic requirement for HDI Global SE's chosen growth strategy.

one.BIZ began in September 2015 and has been managed from Hannover since then as a major international programme. The programme improves the operational efficiency, reinforces the competitiveness and is a strategic building block to further establish HDI as a leading global industrial insurer.

Service excellence
Further projects were successfully implemented as part of the Service Excellence programme. For example, customers can be provided with the best possible service as a result of the region-wide service level agreements. The business processes dealing with sales, underwriting, operations, and losses were and are designed more transparently and continuously optimised. The entire organisation continues to participate in the ongoing process of improvement, because in addition to superior financial stability and technical expertise, excellent service is a key competitive factor for HDI Global SE.

Innovative new products
Middle market producers with annual revenues of up to EUR 50 million now have recourse to HDI Global SE's new "Cyber+ Smart" policy. This policy was developed specifically for this target group as a standardised stand-alone product. The scope of coverage of "Cyber+ Smart" includes direct claims as well as third-party claims, including losses due to business interruption resulting from a breach of data protection, breach of data privacy or a breach of network security. The previously established solution "Cyber+" for large industrial companies and groups is meanwhile being offered to more and more customers in foreign markets. This cyber insurance solution was introduced to the Netherlands and the United Kingdom in 2016. The market launch in other countries inside and outside of Europe is being prepared. "Cyber+" was already introduced to the United Kingdom and Switzerland. Thus, HDI Global SE is one of the few international insurance providers with its own know-how in the area of cyber insurance protection in multiple countries that also continuously expands this international expertise. Other innovative products such as professional sports insurance to insure the consequences of sports disabilities for professional football players and sports organisations, travel insurance for organisers and travel agencies or the contemporary and comfortable liability solution "smart protect" substantiate HDI Global SE's claim of meeting the changing demands of the customers and thereby setting standards for the competition.

Overall assessment of our economic position

HDI Global SE regards its business performance in the reporting period to be stable considering the economic and industry-specific environment: The underwriting result improved slightly due to the satisfactory growth in premiums in the international business and the ongoing restructuring activities in Germany. The lower burden from major losses made a positive impact. Net investment income was in particular influenced by the sustained low interest rate phase. Nevertheless, the business performance can be assessed as rather favourable on the whole. HDI Global SE's economic position remains consistently positive at the time the management report was prepared.

Corporate governance declaration in accordance with section 289a HGB

In accordance with the German Act to Promote Equal Participation of Women and Men in Management Positions in the Private and Public Sector (*Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern in der Privatwirtschaft und im öffentlichen Dienst*, FührposGleichberG), the Company’s Supervisory Board was obligated to specify by 30 September 2015 the quota of women aimed for in the Company’s Supervisory Board and in the Board of Management in the period ending 30 June 2017. Following an in-depth consultation, the Supervisory Board decided to base its planning over the cited period – without prejudice for possible contrary decisions based on the circumstances at the applicable time – on a share of women in the Company’s Board of Management that is expected to remain at zero and in the Company’s Supervisory Board that is expected to remain at 17%, taking into account the current Supervisory Board mandates and the Board of Management mandates and employment contracts. Furthermore, the Board of Management was obligated under the aforementioned act to specify the share of women in the two management levels below the Board of Management. For the first management level, a ratio of 12.0% was resolved, while in the second management level a rate of 10.9% was determined.

Risk report

Risk controlling in a time of change
HDI Global SE offers their policyholders comprehensive insurance protection so that the assumption of risks represents the core of its business. Pronounced risk awareness is an indispensable prerequisite for managing these risks. In this context, the Company developed a variety of processes and instruments some time ago, that are used not only to recognise, assess and manage risk but also to identify opportunities. The Company's risk management is focused on the negative random variations, that are risks.

HDI Global SE uses an internal model to calculate the risk capital for regulatory purposes (whereby operational risk is calculated with a standardised formula). The time horizon considered in the model is one calendar year.

The monitoring systems and decision-making processes of HDI Global SE are embedded in the standards of the Talanx Group.

Structural organisation of risk management
The structural and organisational framework for the Company’s risk management has been set out using a role concept which defines and delimits the rights and responsibilities. In addition, risk management and risk monitoring functions are separated under the segregation of functions.

The Company’s Board of Management is responsible for the introduction and continued development of the risk management system as well as the risk strategy. It is assisted by the Risk Committee. The major tasks of the Risk Committee include, for example, the coordination of risk control measures, the analysis of risk positions, with particular regard to the risk strategy adopted by the Board of Management as well as the regular reporting of risk positions.

The roles of the Head of Risk Management include, inter alia, the coordination of activities of the independent Risk Controlling function.

The activities of the independent Risk Controlling function are mainly focused on the identification and assessment of risks at the aggregate level, including the validation of the risk assessments made by the risk management officers. The preparations for risk reporting, including statements about the utilisation of existing limits and thresholds as well as the regular quantitative analysis of risk bearing capacities also fall within the scope of its responsibilities.

The risk management system is regularly reviewed by Talanx AG's Internal Auditing department.

Risk controlling process
Based on the Company's risk strategy targets, which are consistent with those of Talanx AG, as well as the objectives of its own business strategy, the Company's risk-bearing capacity is regularly reviewed and reported to the Board of Management throughout the year. These quantitative observations are put into operation in connection with a consistent limit and threshold value system at the enterprise level. The utilisation of limits is regularly monitored. Concentration risk is accommodated, among other things, by means of appropriate limits and threshold values.

Within the framework of the qualitative risk control process, HDI Global SE focuses on significant risks. As a general rule, the single risks named by the risk management officers are aggregated into a report on risks and opportunities attached to future developments. The risk meetings, which are regularly held by the divisions and the corporate functions, rely on systems-supported risk identification.

The findings from the qualitative and quantitative analyses of the risk position provide the foundation for an internal risk report that is regularly prepared by HDI Global SE. This ensures that an overview of the Company's risk situation can be provided at all times. The risk categories required under Solvency II are fully covered by HDI Global SE. This enables them to be mapped to the risk categories in the German Accounting Standard GAS 20, which are discussed in the following.

Underwriting risiks
Underwriting risks derive primarily from the premium/loss risk and the reserving risk.

In the property/casualty insurance category the premium/loss risk refers to the risk of having to pay future indemnification from insurance premiums that have been fixed in advance, but that, due to their limited predictability, are not known with certainty when premiums are set (risk of random loss and change). To limit this risk, HDI Global SE uses actuarial models, in particular for the setting of rates, monitors the claims experience on a regular basis and obtains reinsurance coverage.

The reserving risk refers to the risk that the underwriting provisions will not be sufficient to settle all unsettled and unreported claims in full. In order to lower this risk, the level of provisions is regularly reviewed on a period-by-period basis and the run-off results are monitored. In addition, a provision (*Spätschadenrückstellung*) is recognised for losses incurred but not yet reported ("INBR").

The following table shows the development of the loss ratio for own account:

Loss ratio for own account

Claims expenses as percentage of premium earned	
2016	77.9
2015	79.1
2014	83.3
2013	85.7
2012	79.3
2011	97.2
2010	75.2
2009	79.5
2008	68.3
2007	80.5

HDI Global SE seeks, in particular, to mitigate the potential effect of a simultaneous occurrence of natural disasters and accumulation losses within the context of underwriting risk by obtaining adequate reinsurance cover on behalf of the Company for peak claims. In addition, it uses loss analyses, natural disaster models, selective underwriting and regular monitoring of the claims experience to control and reduce risk.

The following table shows the development of the run-off ratio for own account:

Run-off result

Run-off of the initial loss provision (%)	
2016	5.6
2015	9.0
2014	11.4
2013	10.7
2012	7.9
2011	7.7
2010	7.7
2009	4.5
2008	8.1
2007	9.8

Risks of default on insurance business receivables

HDI Global SE reduces the risk of default on receivables from reinsurers by means of instructions and guidelines that apply to the entire segment. The reinsurance partners are carefully selected by expert committees and their creditworthiness is reviewed on an ongoing basis. The consistent and uniform utilisation of rating information applicable at the respective cut-off date is ensured by means of a rating information system accessible Group-wide. In order to avoid and/or limit default risks from the reinsurance business, appropriate measures are taken to collateralise receivables and/or other contractual obligations on the part of these reinsurance partners. Amounts contractually ceded to reinsurers are managed in particular by the Group's own reinsurance broker by way of operational hedging and placement guidelines.

The default risk from claims due from policy holders and insurance agents is accounted for in the form of general allowances for doubtful debt. Agents are also evaluated in terms of their credit worthiness. In particular a strict reminder and dunning process is carried out to counter potential delays or defaults on premium payments in collections directly from policyholders or from intermediaries and the development of outstanding receivables with respect to amount and age is closely followed.

In the direct written insurance business outstanding receivables due from policy holders and insurance agents that were more than 90 days in arrears as at the balance sheet date totalled EUR 169.9 million. This represents 30.4% of gross receivables. Over the past three years, HDI Global SE was required to write-off an average of 0.8% (1.7%) of receivables on reinsurance business as at the balance sheet date.

The receivables from reinsurers based on rating classes are presented as follows as at the reporting date:

Receivables from reinsurers based on rating classes

EUR million, %		
≥ AA	247.0	43.4
A	169.2	29.7
BBB	1.2	0.2
< BBB-	0.1	0.0
NON	151.4	26.6
of which captives	44.8	
Total	**568.9**	**100.0**

Investment risks

Investment risks encompass primarily market risk, credit risk and liquidity risk.

Market risk arises from potential losses due to unfavourable changes in market prices and may be attributable to changes in interest rates, share prices and exchange rates. Credit risk refers to the risk that a debtor will be unable to meet its payment obligations. Liquidity risk involves the inability to meet payment obligations under insurance agreements, in particular, at any and all times.

The measurement, control and management of risks with respect to market price risk rely on stress tests, modified duration and convexity and on the asset-liability management model that has been implemented. The actual developments in the capital markets are then taken into account as part of the ongoing process.

Credit risk is managed by means of a system of rating classes under the special investment guidelines. Credit risk related to mortgages and land charges as well as real properties is limited under the special investment guidelines. Liquidity and concentration risk is taken into account through adequate fungibility and diversification of investments.

If derivative transactions are effected for the purpose of increasing income, to prepare acquisitions and hedge portfolios as well as transactions with structured products, they are entered into in connection with the circular letters issued by the Federal Insurance Supervisory Authority (*Bundesaufsichtsamt für das Versicherungswesen*, BAV) (R 3/ 1999 and R 3/2000), the BaFin (R 4/2011 [VA]) and the Company's internal guidelines. Analogous to the opinion of the German Insurance Association (GDV), the Company has decided to continue following the instructions of the aforementioned circular letters in line with the prudent person principle, regardless of whether parts of these instructions are rescinded.

Derivatives positions and transactions are shown in detail in the reporting. On the one hand, derivatives are efficient and flexible instruments of portfolio management. On the other hand, the use of derivatives is associated with additional risks such as basis risk, curve risk and spread risk, which are monitored in detail and systematically managed. Currently, derivatives are employed in the vast majority of cases for hedging purposes. The risk associated with the employed derivatives is adequately taken into account in the risk controlling.

Risk management objectives

The aim of risk management is to ensure that the investment targets give appropriate consideration to safety, profitability and liquidity while maintaining an appropriate asset allocation and diversification. The intent is to consider the overall-risk situation of the Company. This is characterised, in particular, by the underwriting obligations assumed, the existing structure of investments, own funds and other financial reserves of the Company.

The results of liquidity planning and controlling performed throughout the year are incorporated into the risk management and are taken into account in terms of the time horizon.

Management of the investment portfolio

Investments are subject to detailed guidelines and adherence is continuously monitored, as is compliance with the statutory requirements such as the German Regulation on the Investment of Restricted Assets of Insurance Undertakings (*Anlagenverordnung*) and official circulars. These investment guidelines are designed to serve as framework for the investment strategy, taking into account the operating insurance business and the time horizon, and as evidence vis-à-vis outside parties (BaFin, independent auditors, etc.). The monitoring of the ratios and limits specified in these guidelines is incumbent on Risk Controlling and on the Chief Financial Officer. All material changes to the investment guidelines including appendices and/or investment policies must be approved by the full Management Board of the Group and reported to the Supervisory Board.

Risk measurement and control

The risk associated with the bond portfolio is monitored by determining the interest rate risk on the basis of scenario analyses. Compliance with the limits established by the Chief Financial Officer with respect to the duration of the bond portfolio is also controlled. To monitor changes in the market values of interest-rate sensitive products, the convexity limits of bond products are further tracked on a daily basis. In connection with listed shares, Risk Controlling determines the risk associated with equity instruments on the basis of scenario analyses and stress tests, which are performed at least monthly in compliance with the supervisory regulations.

Fair value development scenarios for securities

Portfolio changes based on market value in (EUR million)	
Portfolio	
Equities and other non-fixed interest securities	
Share prices - 20%	-60.0
Fixed-interest securities and other loans	
Rise in yield + 100 basis points	-235.7
Decline in yield - 100 basis points	+237.2

In connection with the exchange rate risk, cover in matching currencies is monitored. In addition exposures are controlled with respect to the additional limits by currency set by the Chief Financial Officer.

The default risks to be monitored comprise counterparty and issuer risk. Counterparty and issuer risk is controlled on the basis of counterparty lists issued by the Chief Financial Officer as well as by monitoring the limits that are defined for each rating class.

EUR million, %		
Bearer bonds:		
Rating AAA	1,008	37.9
Rating AA	606	22.8
Rating A	690	25.9
Rating BBB	316	11.9
Rating < BBB	41	1.5
Total	2,661	100.0
Registered bonds/ Promissory note loans:		
Rating AAA	537	52.7
Rating AA	200	19.6
Rating A	187	18.4
Rating BBB	54	5.3
Rating < BBB	16	1.6
n. r.	25	2.4
Total	1,020	100.0
Fixed income funds:		
Rating AAA	131	13.4
Rating AA	39	4.0
Rating A	286	29.1
Rating BBB	458	46.6
Rating < BBB	67	6.9
Total	981	100.0
Loans:		
Rating A	107	37.5
Rating BBB	84	29.4
Rating < BBB	50	17.5
n. r.	44	15.6
Total	285	100.0
Total:		
Rating AAA	1,676	33.9
Rating AA	845	17.1
Rating A	1,270	25.7
Rating BBB	911	18.4
Rating < BBB	175	3.5
n. r.	70	1.4
Total	4,947	100.0

As a result of the persistently low interest rate level, there is an elevated rollover risk associated with fixed-interest securities. The capacities on the market for attractive new investments are correspondingly limited.

Liquidity risk refers to the risk of not being able to meet financial obligations, in particular under insurance contracts, if investments are illiquid. The risk is taken into account through adequate fungibility and diversification of investments. The Company ensures sufficient liquidity at all times through the coordination between the investment portfolio and insurance obligations as well as the planning of its cash flows.

Key liquidity indicators are reviewed and reported quarterly to monitor liquidity risk. Compliance with the minimum and maximum limits set by the Chief Financial Officer is tested in connection with the liquidity reserve.

Any risk limit excesses are immediately reported to the Chief Financial Officer and to Portfolio Management.

Operational risk

Operational risks include operating and legal risks. Within the internal risk categories, these risks can be classified under the following sub-groups of operational risk: IT, process, legal and other operational risks.

A failure of EDP systems is considered a typical IT risk. This risk is limited, among other things, by means of a backup computer centre made available by Talanx Systeme AG under a service arrangement as well as by contingency plans.

Process risk is mitigated by the internal management and control system. Based on structured process documentation, material risks and controls are identified, and assessed in a risk/control assessment and action items are formulated where necessary. In a specific case, this might mean that existing controls are adapted and/or that new/additional improvements and measures are initiated by the risk management officers.

Legal risk may arise from contractual agreements or the general legal framework. In organisational terms, the handling of these issues is supported by appropriate organisational and operational arrangements, such as the division of competences between the functional departments at HDI Global SE and the corporate legal department at Talanx AG.

Against the background of a business that grows ever more complex and in which customer orientation plays an important role, among other factors, HDI Global SE attaches a high priority to the qualitative aspects of human resources management as well as the continuing education and training programmes for functional and management staff. This is intended to mitigate other operational risks which might be posed, for example, by a limited availability of personnel.

Other risks

Other risks may include strategic risks, risks to reputation and so-called emerging risks. The principal strategic risk of a rating downgrade is mitigated by the continuous monitoring of capital adequacy and/or the risk bearing capacity as well as regular analyses of plans and forecasts.

Overall summary of the risk position

On balance, there are presently no known risks that could jeopardise the continued existence of HDI Global SE. The Company fulfils the solvency requirements. We publish the specific ratios in May 2017 in the report on the Solvency and Financial Condition Report (SFCR) as at 31 December 2016.

Report on expected developments and on opportunities

Economic climate

For 2017, we expect a continuation of global growth, which should accelerate somewhat compared to the prior year. Industrial nations will likely expand beyond the level of the period under review; the contribution of the emerging markets should also increase. The political change in the USA raises expectations of global demand stimulus, so that we expect the global economy to grow at an annual rate of slightly more than 3%.

These foreign policy impulses, which also include rising net exports, would replace the waning momentum of consumption expected for the eurozone. Despite persistent political uncertainties in the European election year and the associated potentially slowing business climate, the outlook for the eurozone remains positive overall for 2017. For the USA, stable growth remains evident, which is expected to accelerate following the announced tax decreases, increases in infrastructure investments and a wave of deregulation after the new US President takes office. Since the US labour market shows nearly full employment, consumer spending is expected to remain a core driver of labour market growth in addition to the fiscal impulse. However, we expect higher inflation due to rising wages and prices (wage-price spiral).

We also expect increasing growth for emerging markets, starting, however, from a relatively low level. The fundamental stabilisation of commodity prices will likely have a supporting effect in particular for commodity-exporting emerging markets; it should also lead to a noticeable recovery of exports in 2017 following the devaluation of currency in some countries. Nevertheless, specific risks remain: In particular, the transformation of the Chinese economy from an export and investment-oriented growth model to a modern service society in combination with structural problems – such as the high level of debt in the private sector – will continue to have a negative impact in 2017. We expect growth to continue to weaken in China.

Capital markets

Since the ECB's inflation target for the eurozone will not likely be reached in the foreseeable future despite the first increases, we assume that the ECB's monetary policy will remain expansive. Nevertheless, it can be expected that the central bank's bond purchase programme will decrease. This should take place gradually in order to minimise the risk of volatile spreads as a consequence of the reversal of yield hunting. Overall, liquidity and equity resources for the optimisation of the capital structure remain the dominant themes in the banking sector during the persistent phase of low interest rates, even though the US central bank (Federal Reserve) initiated a steady increase in key interest rates in the past December and three to four additional interest rate hikes are expected for 2017.

In this environment, the valuation level of the stock markets in the USA and Europe increased considerably, whereas in contrast profit margins and returns on equity in Europe are quite low. However, with respect to a further stabilisation of the European economy, we expect that profit margins and returns on equity will recover, even though uncertainties in the European election year 2017 as well as the uncertainty about the future direction of US policy will lead to an increase in market volatility.

International insurance markets
In international property and casualty insurance, we expect low real premium income growth overall for 2017. For emerging markets, we assume that the pace of growth will increase slightly, whereas real premium growth will likely slow down somewhat in developed markets. In light of the merely moderate macroeconomic improvements to be expected and potentially rising inflation, it is anticipated that profitability in 2017 will remain at a low level.

For the eurozone as well as the USA, we are assuming that revenue from premiums will rise slightly for 2017, albeit at a weakened level compared to the year under review. In Central and Eastern Europe, the slow economic recovery will likely continue and, as a result, premium performance will also remain positive. We expect growth for 2017 to be comparable to the year under review. For Latin America, we anticipate premium growth to slowly improve in 2017 after restrained growth in 2016. Positive impulses here could come from the corporate customer business in Brazil as well as in Argentina, Chile and Columbia. The solid premium growth in Asian emerging markets will likely continue also in 2017. Regulatory initiatives, for example, such as assistance for natural catastrophe insurance policies in China or the acceleration of infrastructure investments in Southeast Asia could be beneficial.

German insurance industry
Forecasts are difficult in light of the economic risk factors that have already existed for a long time and will also continue to be generally subject to reservations in 2017. Assuming that the general economic environment does not significantly deteriorate, the insurance industry will achieve a slightly increasing premium volume in 2017 compared to the prior year according to an assessment by the German Insurance Association (*Gesamtverband der Deutschen Versicherungswirtschaft e.V.;* GDV).

For 2017, we expect premium income to rise in the German property and casualty insurance lines. However, premium growth should continue to weaken compared to the reporting period's level. This assessment reflects the expected development in motor insurance as the primary driver for positive premium development in recent years.

HDI Global SE
HDI Global SE is among the market leaders in industrial insurance in Germany and throughout Europe. Rising premium income as a result of growing foreign business is reinforcing its strong position as an international competitor. Industrial insurance customers in Germany and abroad benefit from decades of experience in risk assessment and risk management, because the complex risks to which industry and middle-sized companies are exposed, demand special protection. Individually tailored coverage concepts realise comprehensive insurance solutions and thus offer a complete range of products for the coverage of entrepreneurial risks. Just as important: Owing to many years of experience, HDI Global SE can provide professional claims management, which can provide immediate assistance in a loss event.

The Company has built a comprehensive global network in response to the needs of its customers. HDI Global SE is able to offer insurance solutions that meet international standards to industrial customers in 37 countries through primary insurance providers in the Talanx Group and through network partners in around 100 countries. HDI Global SE also benefits from a high degree of customer focus, in particular through its majority shareholder from the industry (HDI V.a.G.).

For financial year 2017 we expect slightly rising premiums, in particular as a result of growth in foreign markets. For example, the industrial business in North and South America, (South) East Asia and the Arabian Peninsula are to be further expanded. In Europe we also see growth opportunities as part of a mid-market strategy.

For this purpose, the opening of additional regional locations for our branch offices in Europe is being reviewed. We view the fierce competition in the German industrial insurance market as a challenge and assume that it will continue to persist. An increasing tendency toward the self-financing of risks on the part of customers can also be observed. As a result of the unchanged and in some cases aggressive competition with respect to prices and terms and conditions, premium adjustments may only be possible here to a limited extent.

In addition, our penetration of the German market is already very high. There is potential for the development of premiums in the further development of multi-risk products in the segment for small and medium-sized enterprises in connection with the mid-market strategy and the sales of cyber insurance policies. Furthermore, the captive expertise is being increased with the corresponding market presence by establishing a new area “Captive Services”. The acquisition of a sister company’s portfolio of fleet vehicles will also positively contribute to the business volume.

In claim processing we expect a further improvement of the situation as a result of the restructuring measures that have been tackled and in part implemented. The ongoing restructuring activities are being continued in particular in the fire and marine insurance lines and are paving the way for additional earnings potential. Overall we expect a slightly lower loss ratio in the upcoming financial year.

The capacity for innovation and a focus on service is becoming increasingly important in the insurance industry. While reinforcing existing strength in direct sales on the basis of close customer contacts and technical and personal competencies, work continues on the ongoing improvement of internal procedures, systems and processes. The close integration between security technology, product development and risk consulting is an integral component. As a result of correspondingly necessary investments, we may not expect a decrease, but instead a stable level of expenses. This leads to a slight increase in the expense ratio.

We are assuming that the distortions on the capital markets will continue in 2017, and that the very low level of interest rates will change very little on the whole. This will continue to affect the yields on new investments. We see opportunities in particular in the alternative investments. Above all, real estate, private equity and infrastructure should partially offset the decrease in returns. Overall, we expect an investment result that is similar to the level of 2016. The persistent low interest rate environment also forces us to slightly improve underwriting.

However, with a slightly improved underwriting result compared to 2016, we expect a slightly lower result overall in 2017, due primarily to declining investment income.

Scope of business operations

The Company operates its business through the following branch offices:

In Germany:
Berlin, Dortmund, Düsseldorf, Essen, Hamburg, Hannover, Leipzig, Mainz, Munich, Nuremberg, Stuttgart.

International:
Athens, Brussels, Copenhagen, Dublin, Hong Kong, London, Madrid, Milan, Manama, Oslo, Paris, Rotterdam, Singapore, Sydney, Tokyo, Toronto, Zurich.

Casualty insurance
Aviation accident insurance,
clinical trials insurance,
individual comprehensive accident insurance,
individual partial accident insurance,
group accident insurance,
motor accident insurance,
medical insurance in connection with foreign travel insurance,
other accident insurance

Liability insurance
Occupational and industrial injury liability insurance,
water pollution liability insurance,
business and property damage liability insurance,
property damage liability insurance,
Directors and Officers (individual),
fire liability insurance,
aviation liability insurance,
environmental liability insurance,
space flight liability insurance,
pharmaceutical, radiation and nuclear facility liability insurance,
sports liability insurance,
other general liability coverage

Motor third-party liability insurance

Other motor insurance
Comprehensive motor insurance,
partial motor insurance

Legal protection insurance

Fire and property insurance
Industrial fire insurance,
agricultural fire insurance,
fire business interruption insurance,
other fire insurance
machinery insurance,
electronics insurance,
installation insurance,
construction services insurance,
existing buildings' insurance,
TV - business interruption insurance,
other engineering insurance coverage,
extended coverage (EC) insurance,
EC - business interruption insurance,
burglary and theft insurance,
tap water insurance,
glass insurance,
storm insurance, umbrella insurance,
other property loss insurance (motor),
other property loss insurance (marine),
motor warranty insurance

Marine and aviation insurance
Comprehensive aircraft insurance,
comprehensive aviation war risk insurance,
comprehensive spaceflight insurance,
merchandise insurance,
blue water hull insurance,
traffic liability insurance,
brown water hull insurance,
terrorist risk - marine,
goods-in-transport insurance,
valuables insurance,
comprehensive insurance,
other marine insurance,
other aviation and spaceflight insurance

Credit and collateral insurance
Surety insurance,
export credit insurance

Other insurance
Machinery warranty insurance,
other property loss insurance
(motor warranty insurance),
other property damage insurance (aviation),
other property damage insurance (marine),
other property damage insurance (ransom payments),
other property loss insurance
(remediation consultation insurance),
other business interruption insurance,
other miscellaneous insurance,
other property loss insurance (exhibitions, hunting and sporting weapons, motor luggage, musical instruments, cameras, reefer cargo, nuclear facilities, automated devices),
other business interruption insurance
(film production insurance, operations shut-down),
other financial losses (loss of license, loss of rent),
other miscellaneous insurance (tank and barrel leakage).
loss of reputation (computer misuse),
burglary, theft and robbery insurance,
tap water insurance,
glass insurance,
storm insurance,
umbrella insurance,
other casualty insurance

All-risk insurance
All-riskproperty insurance,
all-risk business interruption insurance,
multi-line insurance,
multi-peril insurance

HDI Global SE also provides reinsurance in the following insurance classes:
Accident insurance,
liability insurance,
motor insurance,
aviation insurance,
legal protection insurance,
industrial fire insurance (including terrorism risk, TV),
fire business interruption insurance,
credit insurance,
other miscellaneous insurance,
loss of reputation insurance,
engineering insurance

In addition HDI Global SE also covers liability risks in relation to nuclear installations, pharmaceuticals and terrorrism risks as part of the business accepted for reinsurance.

Balance sheet as at 31 December 2016

Assets			**31.12.2016**	**31.12.2015**
EUR thousand				
A. Intangible fixed assets				
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets			13,672	16,519
B. Investments				
I. Land, land rights and buildings, including buildings on third-party land		124,897		100,088
II. Investments in affiliated companies and other equity investments		1,291,406		1,184,479
III. Other investments		5,175,779		5,249,584
IV. Deposits retained by ceding companies on busniess accepted for reinsurance		68,718		66,158
			6,660,800	**6,600,309**
C. Receivables				
I. Receivables arising from direct written insurance business, due from:				
1. Policy holders	256,652			296,241
2. Intermediaries	292,512			314,245
		549,164		**610,486**
II. Receivables on reinsurance business of which due to affiliated companies: EUR 134,105 (94,834) thousand		564,571		515,657
III. Other receivables of which due to affiliated companies: EUR 104,028 (60,159) thousand		258,375		231,947
			1,372,110	**1,358,090**
D. Other assets				
I. Tangible fixed assets and inventories		10,973		9,416
II. Cash at banks, cheques and cash-in-hand		329,330		263,228
III. Other assets		26		102
			340,329	**272,746**
E. Accrued or deferred items				
I. Deferred rent and interest income		55,772		65,307
II. Other prepaid expenses		1,403		2,416
			57,175	**67,723**
F. Excess of plan assets over post-employment benefit liability			4,537	3,853
Total assets			**8,448,623**	**8,319,240**

Equity and liabilities			**31.12.2016**	**31.12.2015**
EUR thousand				
A. Equity				
I. Subscribed capital		125,000		125,000
II. Capital reserves		281,536		281,536
			406,536	**406,536**
B. Subordinated liabilities			200,000	200,000
C. Underwriting provisions				
I. Unearned premium reserve				
1. Gross amount	890,813			850,950
2. less: share for business ceded for reinsurance	429,490			419,239
		461,323		**431,711**
II. Provision for outstanding claims				
1. Gross amount	10,031,299			10,257,014
2. less: share for business ceded for reinsurance	5,144,982			5,512,648
		4,886,317		**4,744,366**
III. Provision for profit-related and non-profit-related premium refunds				
1. Gross amount	17,299			8,410
2. less: share for business ceded for reinsurance	7,746			1,405
		9,553		**7,005**
IV. Equalization reserve and similar provisions		598,938		551,188
V. Other underwriting provisions				
1. Gross amount	43,464			38,941
2. less: share for business ceded for reinsurance	1,529			1,500
		41,935		**37,441**
			5,998,066	**5,771,711**
D. Other provisions				
I. Provisions for pensions and similar obligations		407,403		365,582
II. Provisions for taxes		34,536		49,472
III. Other provisions		73,991		77,185
			515,930	**492,239**
E. Deposits retained on reinsurance ceded			69,718	72,189
F. Other liabilities				
I. Liabilities from direct written insurance business due to: 1. Policy holders	53,055			79,543
2. Intermediaries	117,915			195,185
		170,970		**274,728**
II. Payables on reinsurance business of which due to affiliated companies: EUR 116,560 (186,866) thousand		789,493		833,344
III. Other liabilities: of which taxes: EUR 47,936 (60,470) thousand of which social security: EUR 917 (1,800) thousand of which due to affiliated companies: EUR 111,022 (73,382) thousand		296,651		268,111
			1,257,114	**1,376,183**
G. Deferred and accrued items			1,259	382
Total equity and liabilities			**8,448,623**	**8,319,240**

The annuity provision recognised on the balance sheet as at the close of the 2016 financial year under equity and liabilities C.II. is equal to EUR 31,107,110. It is confirmed that the provision for outstanding pension claims shown on the balance sheet under line C.II. has been calculated in consideration of § 341f and § 341g HGB as well as in compliance with the regulation issued based on § 88 Para 3 of the Insurance Supervision Act (*Versicherungsaufsichtsgesetz;* VAG).

Hannover, 15 February 2017

The Responsible Actuary Schmidt

Income statement for the period from 1 January to 31 December 2016

I. Underwriting account			**2016**	**2015**
EUR thousand				
1. Premiums earned for own account				
a) Gross written premiums	3,998,709			3,979,765
b) Premiums ceded to reinsurance	2,031,351			2,185,884
		1,967,358		1,793,881
c) Change to the gross premium reserve unearned	-36,066			-8,963
d) Adjustment of reinsurers' share in gross premiums unearned	-5,817			-342
		-30,249		**-8,621**
			1,937,109	**1,785,260**
2. Underwriting interest income for own account			340	346
3. Other underwriting income for own account			6,134	4,662
4. Expenses on insurance claims for own account				
a) Claims payments				
aa) Gross amount	2,660,570			2,821,300
bb) Reinsurer's share	1,277,093			1,447,948
		1,383,477		**1,373,352**
b) Changes to the provision for outstanding claims				
aa) Gross amount	-271,192			412,355
bb) Reinsurer's share	-396,646			374,255
		125,454		**38,100**
			1,508,931	**1,411,452**
5. Change to other net underwriting provisions			4,374	1,980
6. Expenses for profit-related and non-profit related premium refunds for own account			5,743	4,015
7. Expenses for insurance operations for own account				
a) Gross expenses for insurance operations		772,561		768,677
b) less: commissions and profit commissions received for business ceded to reinsurance		341,481		313,344
			431,080	**455,333**
8. Other underwriting expenses for own account			2,103	1,654
9. Subtotal			**-8,648**	**-84,166**
10. Changes to equalisation reserve and similar provisions			-47,750	8,390
11. Underwriting result for own account			**-56,398**	**-75,776**

II. Non-underwriting account			**2016**	**2015**
EUR thousand				
1. Investment income				
a) Income from long-term equity investments - of which from affiliated companies: EUR 40,537 (15,090) thousand	47,438			17,950
b) Income from other investments - of which from affiliated companies: EUR 4,805 (8,825) thousand				
ba) Income from land, land rights and buildings, including buildings on third-party land	12,422			11,209
bb) Income from other investments	182,079			180,140
c) Income from reversal of write-downs	1,152			525
d) Gains on disposal of investments	10,971			30,710
e) Income from profits received under profit pooling, profit-or-loss transfer, or partial profit transfer agreements	31,135			15,222
		285,197		**255,756**
2. Investment expenses				
a) Investment management expenses, interest expenses and other expenses related to capital investments	10,745			13,012
b) Write-downs of investments	5,663			31,556
c) Losses on disposal of investments	3,044			16,798
d) Cost of loss absorption	0			1
		19,452		**61,367**
		265,745		**194,389**
3. Underwriting interest income		340		315
			265,405	**194,074**
4. Other income		60,613		79,650
5. Other expenses		102,711		122,841
			-42,098	**-43,191**
6. Result from ordinary activities			**166,909**	**75,107**
7 Extraordinary expenses		53,710		8,800
8 Extraordinary result			**-53,710**	**-8,800**
9 Taxes on income		36,830		32,044
10 Other taxes		8,584		7,204
			45,414	**39,248**
11 Profit transferred on the basis of profit pooling, profit-and-loss transfer, or partial profit transfer agreements		67,785		27,059
12 Net profit/loss for the year			**0**	**0**

Notes to the financial statements

HDI Global SE (Hannover Local Court, HRB 60320), HDI-Platz 1, 30659 Hannover

General information

The annual financial statements and the management report for the 2016 financial year were prepared in accordance with the regulations in the German Commercial Code (*Handelsgesetzbuch*; HGB), the German Stock Corporation Act (Aktiengesetz; AktG) and the German Insurance Supervision Act (*Versicherungsaufsichtsgesetz*; VAG) in conjunction with the Regulation on the Accounting of Insurance Undertakings (*Verordnung über die Rechnungslegung von Versicherungsunternehmen*; RechVersV) in the version applicable at the balance sheet date.

Assets

Intangible fixed assets
Intangible fixed assets were recognised at cost less amortisation applied in accordance with their customary useful lives. The domains hdi-global.com and hdiglobal.com represent an exception to this rule. They were recognised at cost and are not amortised.

Land, land rights and buildings, including buildings on third-party land
Land and buildings were recognised at the cost of acquisition and / or construction. Depreciation is applied using their customary useful lives. Write-downs to the lower fair value are recognised in the event of permanent impairment.

The gross rental value method in accordance with the regulations concerning the principles governing the assessment of the fair market values of properties (German Ordinance on the Valuation of Property/Real estate–*Immobilienwertermittlungverordnung*; ImmoWertV) and the supplementary Valuation Guidelines are applied to determine the fair value of our real properties. The present value of cash flows generated by the property and discounted over its remaining economic useful life is determined using this approach. Current market values are determined by external experts at least every five years (§ 55 Para 3 of the Regulation on the Accounting of Insurance Undertakings (*Versicherungsun-ternehmens-Rechnungslegungsverordnung*; RechVersV)). The values are updated internally every year and adjusted as needed, for instance to the changed earnings situation. The cost or the value assessed in a report compiled by an external, publicly certified expert is recognised for all land and buildings newly acquired as well as properties under construction.

Investments in affiliated companies and other equity investments
Investments in affiliated companies and other long-term equity investments were recognised at cost less any write-downs to the lower fair value (less strict lower of cost or market principle in accordance with § 341b Para 1 sentence 2 HGB in conjunction with § 253 Para 3 sentence 5 HGB).

The market value of the shares in affiliated companies and equity investments has been determined in accordance with section 56 RechVersV. As a rule, the present value of future distributable financial surpluses (capitalised value of expected earnings) was recognised as the fair value. A company whose fair value is primarily based on the sum of the capitalised value of expected earnings of its subsidiaries was measured accordingly using a sum-of-parts approach. With respect to a foreign investee in the development phase whose income planning has not yet sufficiently stabilised, a multiple of equity was used in place of the capitalised value of expected earnings. For companies in the development phase whose income planning is not yet sufficiently stabilised, a fair value is derived using comparable market data in place of the capitalised value of expected earnings. If the continuation of operations as a legally independent unit could no longer be assumed in the short to medium term, a net asset value that adequately accounts for the company's future development prospects would be applied. In individual cases, the fair value was set equal to the carrying amount as long as there was no indication of impairment. For companies whose noteworthy assets comprise land and buildings, the fair market value of the land and buildings was taken into account. For companies that subscribe to equity instruments not traded on the capital market, the measurement is carried out analogously to comparable instruments that are held directly using the net asset value approach. Write-downs are recognised if the impairment is expected to be permanent.

Loans to affiliated companies, loans to other long-term investees and investors and other investments
Stocks, shares, or investment fund units and other non-fixed interest securities as well as bearer bonds and other fixed-interest securities and other investments are measured at cost or the lower market values. If these securities are intended to serve the operation permanently, they are measured based on the less strict lower of cost or market principle (§ 341b Para 2 HGB in conjunction with § 253 Para 3 HGB). Permanent impairment is recognised in profit or loss. For impairment that is expected to be temporary, a write-down may be optionally recognised (§ 341b Para 2 in conjunction with § 253 Para 3 sentence 6 HGB).

The fair value is determined for shares using the earnings per share (EPS) method, an income approach for each share on the basis of expected annual profits estimated by independent analysts, or the higher fair market value. If earnings per share exceed 120% of fair market value, they are capped at 120%. Additional general reductions may be recognised as needed.

For bonds and bond funds of fixed assets, the fair value is determined on the basis of a nominal value method based on the nominal value expected to be recognised for each individual bond at final maturity provided no rating-linked adjustments are to be made. For mixed funds of fixed assets, the fair value is determined separately for the individual components such as stocks and bonds using the aforementioned methods. The remaining constituents of the fund are also factored into the fair value; for example, cash, interest accruals, receivables/payables.

The fair value of other investments is generally determined on the basis of their open market value. For investments having a market or listed price, the market value is defined as the market or listed price on the balance sheet date, or on the last day prior to this date for which a market or listed price could be identified. In cases in which there are no stock market quotations, yield-implied prices are used based on price formation methods established in financial markets. Investments are valued at maximum at their expected realisable value in accordance with the principle of prudence.

Loans to affiliated companies and other long-term investees and investors, registered bonds, notes receivable and loans as well as loans guaranteed by mortgages, land charges and annuity land charges are measured at amortised cost (§ 341c HGB), whereby the investments are recognised at the purchase price or the payout amount upon acquisition. The difference to the repayment amount is amortised using the effective interest method over the period until the time of the first call, interest rate adjustment or extension deadline. Write-downs are recognised based on the less strict lower of cost or market principle if the amortised cost exceeds the market value and fair value on the balance sheet date.

The fair values of loans to affiliated companies and to long-term investees and investors and of registered bonds, of notes receivable and loans as well as other miscellaneous loans were determined with the help of product and rating-specific yield curves. Special structures such as deposit protection, guaranty obligations, or subordination were taken into account with respect to the spread premiums applied. The fair value of zero coupon registered bonds and zero coupon notes receivable is determined based on the Company's own calculations derived using actuarial methods.

With respect to the structured products in the portfolio, they are financial instruments for which the underlying instrument in the form of a fixed income cash instrument is contractually bundled as a unit with one or more derivatives. As a general rule, they are recognised consistently at amortised cost under fixed assets. They are measured accordingly based on the less strict lower of cost or market principle (§ 341b Para 1 sentence 2 HGB in conjunction with § 253 Para 3 sentence 5 HGB).

As a general rule, derivatives are measured at cost or the lower fair value prevailing on the reporting date.

In connection with the requirement to reverse write-downs (§ 253(5) HGB), reversals of write-downs are recognised for assets that were written down in prior years up to the depreciated or amortised carrying amount or lower fair market value if the reasons for permanent impairment no longer apply and the value of the asset has recovered.

Deposits with banks and deposits retained were recognised at their nominal amounts.

Receivables
Receivables from direct written insurance business were recognised at their notional amounts. For the business in Germany, a global valuation allowance for receivables from policy holders and insurance brokers was calculated in the amount of 1%. For the international business, a global valuation allowance was recognised based on the age structure of receivables from policy holders. For receivables from insurance brokers, the general risk of default was taken into account through the recognition of an adequate global valuation allowance.

Reinsurance receivables and other receivables were recognised on the balance sheet date at their nominal amounts. The general default risk related to receivables was accounted for by recognising an appropriate allowance for impairment losses.

Since the cost accounts were closed for new postings before the balance sheet date, costs that were posted after the record date for accrued and deferred items were recognised as other receivables. This item is offset by estimated costs for the period between the closing of the cost accounts and the balance sheet date, which were reported under other provisions.

The corporate tax credit was calculated in accordance with the Act on Fiscal Measures Accompanying the Introduction of the European Corporation and the Amendments of Other Tax Regulations (*Gesetz über steuerliche Begleitmaß nahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften*; SEStRG). Since the remaining term of the receivable from corporate income tax is less than one year at the reporting date, discounting is not necessary.

Other assets
Operating and office equipment was recognised at cost and is depreciated over the customary useful life. The depreciation was applied according to the straight-line method; the periods of useful life range from three to twenty years. Low-value items up to EUR 150 are immediately recognised as operating expenses. Low-value items costing between EUR 150 and EUR 410 are capitalized and written off in full in the year of acquisition. Some inventory items are carried at a fixed value.

Cash at banks, cheques and cash-in-hand have been recognised at their nominal amount.

Prepaid expenses
The items to be included under prepaid expenses were recognised at nominal value.

Excess of plan assets over post-employment benefit liability
The line item "Excess of plan assets over post-employment benefit liability" represents the excess amount remaining after netting post-employment benefit obligations with plan assets under individual contracts (mainly pension liability insurances).

Equity and liabilities

Subordinated liabilities

The subordinated liabilities were recognised at their nominal amount.

Approximation and simplification methods

In the determination of the reinsurers' contractual shares in all gross basis items, a timing offset of one month was applied. The calculation was made on the basis of gross data written for the first eleven months, and the shares for reinsurance were estimated for the remaining month. The following method was applied to calculate the estimate: The shares of locally managed reinsurers were deducted from the gross underwriting items relevant for reinsurance for the foreign branch offices, since they were written by year-end similar to the gross values. A standard reinsurance regime representing an average reinsurance valuation was applied to the shares and total German portfolio calculated using this approach. Special cases, e.g. a loss event exceeding the priority for non-proportional reinsurance, were taken into account separately.

The method used is subject to regular technical controls; in aggregate, it does not have a material effect on the net assets, financial position and results of operations of the Company.

Underwriting provisions

For both the direct written business and the business accepted for reinsurance – provided no information in this respect was provided by the ceding companies – unearned premiums were determined according to the 1/360 method or for the exact number of days (pro rata temporis) in compliance with the regulations of the supervisory authority and the circular from the German Federal Minister of Finance dated 30 April 1974. The shares ceded for reinsurance are accrued in accordance with the contractual agreements.

For the direct written insurance business, the provision for outstanding claims was determined separately for each individual claim. In the co-insurance business, the information provided by the lead insurers was adopted. If the information from the lead insurers was not available as at the balance sheet date, the provisions were estimated for each business relationship on the basis of past experience. In motor liability, motor comprehensive and motor partial own damage insurance, the group-valuation option was used for unsettled minor claims. In the blue water and brown water hull insurance lines, the provision for the indemnification of claims for the financial year losses was measured globally based on past experience.

Corresponding late loss provisions for losses incurred but not reported ("IBNR") were recognised for insurance claims of which we were not yet aware at the reporting date. These provisions for claims incurred but not yet reported were calculated based on the origin of the insurance business as well as the distinctive characteristics of the respective lines using various methods. In the motor liability class, the provisions were calculated based on the chain ladder method. In the other classes the calculation is made based on the expected loss expenses and geared towards a three to five year average, taking special factors into account.

The annuity provision calculated in accordance with § 65 VAG (*Versicherungsaufsichtsgesetz*; German Insurance Supervisory Act) and the provision for anticipated claims settlement expenses were recognised in addition. A two-step method was chosen to calculate the provision for adjustment expenses. The starting point in this approach is the calculation of the provision for claims adjustment expenses in accordance with the Decree issued by the Federal Minister of Finance on 2 February 1973 for each HGB class on the basis of prior year values. The provision for claims adjustment expenses thus calculated was then compared to the residual provisions for indemnification. The resulting percentage rate serves as a factor for the relevant calculation method applied in the current financial year, for which the factors were then applied to the current residual provisions for indemnification. For losses for which it was apparent that the provision thus calculated was insufficient, the provision was increased by an additional individual estimate.

The (gross) annuity provision included in the provision for outstanding claims was calculated based on actuarial principles. The calculation was made based on the DAV 2006 HUR mortality tables for women and men. The actuarial interest rate was reduced from 1.25% to 0.9% in the reporting period, which led to an increase in the annuity provision in the amount of EUR 2.5 million.

Receivables from recoveries, salvages and loss sharing agreements for settled claims have been taken into account as deductions to the loss provision ("loss reserve").

A provision for premium refunds was recognised in accordance with contractual terms and conditions.

The equalisation reserve was calculated in compliance with the regulations according to § 29 RechVersV and the Appendix to § 29 RechVersV as well as the Regulations on Reporting for Insurance Undertakings (*Versicherungsberichterstattungsverordnung*; BerVersV).

The provision for the insurance for nuclear facilities and terrorism risk was calculated in accordance with section 30(2) and (2a) RechVersV. The provision for major risks relating to pharmaceutical risk was determined in accordance with section 30(1) RechVersV.

The other underwriting provisions were determined as follows:

The provision for premium lapse risks was calculated by multiplying the annual premiums by the average ratio of provisions for premium lapse risks to premiums over the last three years. The provision for obligations arising from membership in the Verkehrsopferhilfe e. V. association was recognised according to the notice from the association. The provision for repayment amounts on suspended motor insurance policies was determined on a contract-by-contract basis.

The provisions for impending losses from directly written insurance business or insurance business accepted for reinsurance reported under other underwriting provisions in accordance with section 31(1) no. 2 of the Regulation on the Accounting of Insurance Undertakings (*Versicherungsunternehmens-Rechnungslegungsverordnung*, RechVersV) are recognised as the negative balance of the income expected for the contracts for which there is a legal obligation at the reporting date and the expected expenses. The income includes the expected premium as well as the effects of interest. The expenses include claim expenses and administrative expenses. The expense items are derived based on past experience and adjusted as needed if the forecast of future performance was distorted by effects in prior loss years.

With respect to the underwriting provisions from the insurance business accepted for reinsurance, the provisions ceded by the prior insurers were generally recognised under liabilities unless the Company had better knowledge. To the extent that the amounts ceded were not yet available at the time that the financial statements were prepared, the provision for losses ("loss reserve") was estimated using the amounts ceded last year.

Other provisions

Pursuant to section 253(1) sentence 2 HGB pension liabilities were recognised at the settlement amount determined in accordance with the principle of prudence and have been discounted in accordance with section 253(2) sentence 2 HGB over an assumed remaining life of 15 years, using the average interest rate for the last ten (prior year: seven) years as published by the German Bundesbank in accordance with German Regulation on the Discounting of Provisions (*Rückstellungsabzinsungsverordnung*; RückAbzinsVO). The provisions for pensions for employer-funded commitments and for employee-funded commitments not contingent on securities were calculated in accordance with the entry age normal method based on Heubeck's 2005G actuarial charts.

For share-based employee-financed pension obligations, the settlement amount corresponds to the market value of the security. The claims from reinsurance policies were netted with the obligations as nettable plan assets. Further information regarding trend assumptions, the discount rate and the difference in accordance with § 253 Para 6 HGB is provided under D.1 Provisions for pensions and similar obligations.

The calculation of the provision for partial retirement included all employees of the Company who have already taken advantage of partial retirement. The calculations were carried out with the help of Heubeck's 2005 G actuarial charts. The calculations were based on the actuarial decrement tables for active employees. To this end, an actuarial interest rate of 1.67% was applied assuming an average remaining term of two years. A rate of 2.50% was assumed for salary increases. In accordance with section 253 HGB, the provisions are recognised at the required settlement amount. They comprise the provisions for back wages and salaries, the provisions for top-up amounts, the provisions for the additional employer contributions to the statutory pension insurance scheme and provisions for severance.

The anniversary obligations are measured based on the same principles as the pension obligations, whereby the same assumptions for taking into account salary trend and fluctuation probabilities are applied. Only the discount rate is calculated differently using an average value from the past seven years and applied at 3.22%.

Provisions for taxes and other provisions take all identifiable risks and uncertain obligations into account and were recognised at the settlement amount dictated by prudent business judgement.

Provisions with a remaining term of more than one year were discounted at the average market interest rate for the last seven years as determined and published by the German Bundesbank in accordance with the RückAbzinzV.

Deposits retained
Deposits retained on direct written insurance business were recognised as a liability at the settlement amount.

Other liabilities
Other liabilities are recognised at their settlement amounts.

Deferred income
Income prior to the balance sheet date was presented under deferred income to the extent that it represents income for a specific period after the balance sheet date.

Currency translation
If there are items denominated in foreign currency, they are translated as at the balance sheet date at the closing rate (mean spot exchange rate) for balance sheet items and at the average rate for items in the income statement. With respect to monthly foreign currency measurement, the portfolio positions are translated at the respective exchange rate prevailing at the end of the month. The translation rate for the monthly measurement of income statement line items is the respective final rate on the last day of the preceding month. These items are translated using a rolling method. The addition of the translated individual items effectively resulted in a translation at average rates.

In order to limit exposure to currency risk as much as possible, liabilities denominated in a foreign currency are largely matched with assets in the same currencies/amount. For the major foreign currencies, any currency translation gains net of currency translation losses during the period were allocated as unrealised to a provision for currency risk. The provision is reviewed quarterly.

Assets

Changes to assets A., B.I. through B.III in the 2016 financial year

Assets (EUR thousand)		Balance sheet amounts for	Additions
A.	Intangible fixed assets		
	1. Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	16,519	6,987
B. I.	Land, land rights and buildings, including buildings on third-party land	100,088	28,419
B. II.	Investments in affiliated companies and other equity investments		
	1. Shares in affiliated companies	923,011	90,879
	2. Loans to affiliated companies	151,817	4,580
	3. Other long-term equity investments	109,650	19,233
	4. Loans to other long-term investees and investors	0	14,229
	5. Total B.II.	**1,184,478**	**128,921**
B. III.	Other investments**		
	1. Stocks, shares, or investment funds units and other non-fixed-interest securities	1,253,049	194,369
	2. Bearer bonds and other fixed-interest securities	2,640,106	461,107
	3. Mortgages, land charges and annuity land charges	546	–
	4. Other loans		
	a) Registered bonds	686,718	334,796
	b) Promissory notes and loans	498,086	73,488
	5. Deposits with financial institutions	171,080	–
	6. Total B.III.	**5,249,585**	**1,063,760**
Total		**6,550,670**	**1,228,087**

**The carrying amount of owned properties used in connection with Company operations was equal to EUR 41,467 (42,907) thousand.*

***Disclosure pursuant to section 277(3) HGB*

Impairment losses were recognised on fixed assets in the financial year in the amount of EUR 119 (24,650) thousand.

The Company has exercised the option pursuant to section 341b(2) HGB to classify investments with a carrying amount of EUR 3,881,640 (3,531,504) thousand as fixed assets. EUR 1,407,677 (1,251,753) thousand of this amount can be attributed to stocks, shares, or investment funds units and other variable-interest-bearing securities and EUR 2,473,964 (2,279,751) thousand to bearer bonds and other fixed-interest securities.

Investments with hidden losses

§ 285 no. 18 HGB

The fair values of the following investments recognised at cost were less than the carrying amounts:

EUR thousand	Carrying amounts	Market values
Shares in affiliated companies	193	182
Stocks, shares, or investment funds units and other non-fixed-interest securities	108,701	101,111
Bearer bonds and other fixed-interest securities	270,760	264,634
Total	**379,654**	**365,927**

A write-down in the amount of EUR 13.7 (12.4) million was avoided by means of dedication as fixed assets in accordance with § 341b(2) HGB. In our estimation, the impairment is temporary.

Disposals	Reversal of write-downs	Exchange rate fluctuations	Amortisation, depreciation and write-downs	Balance sheet values for the financial year	Market values Investments
234	–	4	9,604	**13,672**	–
–	205	–	3,815	**124,897***	**172,108**
20,903	–	4,540	–	**997,527**	**1,167,815**
8,856	–	3,064	–	**150,605**	**157,089**
–	–	**49**	–	**128,932**	**177,639**
–	–	**113**	–	**14,342**	**14,342**
29,759	**–**	**7,766**	**–**	**1,291,406**	**1,516,885**
38,014	917	1,938	119	**1,412,140**	**1,476,930**
445,361	30	6,913	1,729	**2,661,066**	**2,829,310**
39	–	–	–	**507**	**551**
321,684	–	854	–	**700,684**	**744,170**
252,805	–	175	–	**318,944**	**333,397**
89,057	–	415	–	**82,438**	**82,384**
1,146,960	**947**	**10,295**	**1,848**	**5,175,779**	**5,466,742**
1,176,953	**1,152**	**18,065**	**15,267**	**6,605,754**	**7,155,735**

Shares or shares in investment fund

Disclosures pursuant to section 285 no. 26 HGB. EUR thousand	Balance sheet 31.12.2016	Market value 31.12.2016	Distribution 2016
Fixed income funds			
EURO-RENT 3 Master	969,829	1,018,192	65,000
BlueBay Emerg Mrkt. Inv. Grade Corp. Bond FD. I***	39,975	35,381	1,701
Ampega CrossoverPlus Rentenfonds I (a)	3,500	3,736	108
Fisch CB - Global Defensive BQ2	25,038	25,347	0
Subtotal Fixed income funds	**1,038,342**	**1,082,656**	**66,809**
Mixed funds			
HDI Global Equities	261,152	281,487	2,500
Subtotal Mixed funds	**261,152**	**281,487**	**2,500**
Total	**1,299,494**	**1,364,143**	**69,309**

Write-downs pursuant to section 253(3) sentence 4 HGB were not applied to the special funds reportable under hidden reserves, since we considered the impairments to be temporary.

For the equity funds held as fixed assets, the fair value of every single stock in the portfolio was calculated by the EPS ("earnings per share") method. If EPS data was not available, market values (max. 120%) were used as an alternative.
For bond funds held as fixed assets, the fair value of fund shares represents the sum of its constituting components (bonds, cash, accrued interest, payables/receivables, derivatives, etc.).
The fair value of each individual bond in the portfolio corresponds to the nominal value for each bond or the lower market value in a credit event or if the market value is lower than 50% of the nominal value.
There are no restrictions with respect to the daily surrender option.

B. II. Investments in affiliated companies and other equity investments

Name, registered office	Share[1] in %	Currency	Equity in thousand	Result in thousand
Credit Suisse (Lux) Gas Transit Switzerland SCS, Luxembourg	16.30	EUR	37,500	–
Gerling Norge A/S, Oslo*	100.00	NOK	491	115
Hannover Euro Private Equity Partners III GmbH & Co. KG*	8.20	EUR	32,139	9,248
Hannover Euro Private Equity Partners IV GmbH & Co. KG*	7.35	EUR	46,160	16,892
HDI AI USD Beteiligungs-GmbH & Co. KG (formerly: HDI AI USD Beteiligungs-GmbH & Co. KG), Cologne	100.00	EUR	116,448	19,729
HDI AI EUR Beteiligungs-GmbH & Co. KG (formerly: HG-I Alternative Investments Beteiligungs-GmbH & Co. KG), Cologne	100.00	EUR	456,519	19,131
HDI Schadenregulierung GmbH (formerly: HDI-Gerling Schadenregulierung GmbH), Hannover [2]	100.00	EUR	25	14
HDI Risk Consulting GmbH (formerly: HDI-Gerling Sicherheitstechnik GmbH), Hannover [2]	100.00	EUR	1,626	1,599
HDI-Gerling Verzekeringen N.V., Rotterdam*	100.00	EUR	132,615	-2,212
HDI Global Network AG (formerly: HDI-Gerling Welt Service AG), Hannover [2]	100.00	EUR	187,664	29,510
Institutional Venture and Equity Capital GmbH, Cologne	23.80	EUR	97,852	24,093
Magma HDI General Insurance Ltd., Kolkata**	25.50	INR	2,194,328	-118,521
Nassau Assekuranzkontor GmbH, Cologne *[2]	100.00	EUR	25	13
Petro Vietnam Insurance Holdings, Hanoi*	35.74	VND	6,277,964,161	530,052,623
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover	50.00	EUR	152,025	5,660

**Carrying amounts as at 31 December 2015*

***Carrying amounts as at 31 March 2016*

1) The percentage of shares held is determined as the sum of all shares held directly or indirectly.

2) A profit-and-loss transfer agreement is in effect.

C. III. Other receivables

EUR thousand	31.12.2016	31.12.2015
Receivables from affiliated companies*	104,028	60,159
Claims payments/Co-insurance/Share of losses attributable to other companies	69,387	82,097
Receivables from tax authorities	25,004	23,582
Receivables due to timing differences in accounting entries	21,829	31,510
Payments not yet assigned	20,673	23,080
Receivables from the sale of renewal rights	6,297	–
Receivables for incidental expenses incurred in connection with property	2,421	2,288
Costs posted after the cost accounts are closed**	2,205	2,212
Receivables from security deposits and sureties	1,115	1,747
Receivables from insurance pools	571	–
Receivables from employees	427	834
Miscellaneous	4,418	4,438
Total	**258,375**	**231,947**

**These include other receivables from investment income in the amount of EUR 32.8 million. In addition, these also include receivables from HDI Global Network AG (formerly: HDI-Gerling Welt Service AG) in the amount of EUR 29,510 thousand, from Nassau Assekuranzkontor GmbH in the amount of EUR 13 thousand, from HDI-Gerling Schadenregulierung GmbH in the amount of EUR 14 thousand and from HDI Risk Consulting (formerly: HDI-Gerling Sicherheitstechnik GmbH) in the amount of EUR 1,599 thousand from the transfer of profits.*

*** Costs posted after the closing of the cost accounts (1 December 2016) were recognised as other receivables. In the following period, the accruals were reversed through profit and loss.*

Other receivables include receivables with a remaining term of more than one year in the amount of EUR 1,287 thousand.

D. Other assets

I. Tangible fixed assets and inventories

EUR thousand	31.12.2016	31.12.2015
Balance as at the start of the financial year	9,416	8,697
Additions	4,684	2,925
Disposals	1,023	794
Amortisation, depreciation and write-downs	2,009	1,567
Exchange rate fluctuations	-95	155
Balance as at the end of the financial year	**10,973**	**9,416**

E. Prepaid expenses

I. Deferred rent and interest income

EUR thousand	31.12.2016	31.12.2015
Interest	55,751	65,286
Rental income	21	21
Total	**55,772**	**65,307**

II. Other prepaid expenses

Other prepaid items in the amount of EUR 1,403 (2,416) thousand represent administrative expenses.

Equity and liabilities

A. I. Subscribed capital

The subscribed capital in the amount of EUR 125,000 thousand is fully paid in and is divided into 125,000 registered shares of EUR 1,000 each. Talanx AG is the sole shareholder.

A. II. Capital reserves

The capital is equal to EUR 281,536 thousand. The creation of a statutory reserve is not required since section 150(2) AktG ("statutory reserve fund") has already been satisfied by the creation of a capital reserve in accordance with section 272(2) no. 1 HGB.

B. Subordinated liabilities

There are two subordinated loans. The lenders are HDI Versicherung AG with a loan amount of EUR 20,000 thousand and HDI Lebensversicherung AG with a loan amount of EUR 180,000 thousand. Both loans provide for a fixed interest period lasting until 12 August 2021 with a coupon of 4.25%. After this date, the variable interest rate will be calculated based on the three-month Euribor plus a margin of 7.17%. The subordinated loans cannot be terminated early by the borrower until 12 August 2021 at the earliest.

C. Total gross underwriting provisions

	31.12.2016	**31.12.2015**
EUR thousand		
Direct written insurance business		
Casualty insurance	210,861	197,999
Liability insurance	5,053,817	5,115,804
Motor third-party liability insurance	612,471	612,348
Other motor insurance	86,039	78,057
Fire and property insurance	1,120,929	1,065,686
of which:		
a) Fire insurance	510,831	478,659
b) Engineering insurance	553,927	525,121
c) Other property insurance	56,171	61,906
Marine and aviation insurance	583,448	649,194
All-Risk-insurance	624,535	649,042
Legal protection insurance	85,325	94,530
Other insurance	118,094	118,841
Total	**8,495,519**	**8,581,501**
Business accepted for reinsurance	3,086,294	3,125,002
Total insurance business	**11,581,813**	**11,706,503**

Of which:

a) Gross provision for outstanding claims: EUR 10,031,299 (10,257,014) thousand

b) Equalisation reserve and similar provisions: EUR 598,938 (551,188) thousand.

C. II. 1. Gross provision for outstanding claims

	31.12.2016	31.12.2015
EUR thousand		
Direct written insurance business		
Casualty insurance	145,680	140,873
Liability insurance	4,697,762	4,861,259
Motor third-party liability insurance	552,892	542,578
Other motor insurance	55,137	62,207
Fire and property insurance	914,661	870,328
of which:		
a) Fire insurance	473,529	439,814
b) Engineering insurance	394,895	377,002
c) Other property insurance	46,237	53,512
Marine and aviation insurance	528,892	592,255
All-risk-insurance	522,555	544,598
Legal protection insurance	76,168	90,607
Other insurance	105,284	109,154
Total	**7,599,031**	**7,813,859**
Business accepted for reinsurance	2,432,268	2,443,155
Total insurance business	**10,031,299**	**10,257,014**

C.III. 1. Gross provision for profit-related and non-profit-related premium refunds

The provision for premium refunds presented in the financial year in the amount of EUR 17,299 (8,410) thousand relates with EUR 2,784 (-) thousand to performance-based dividends to policyholders and in the amount of EUR 14,515 (8,410) thousand to non-performance-based dividends to policyholders.

C. IV. Equalisation reserve and similar provisions

	31.12.2016	31.12.2015
EUR thousand		
Direct written insurance business		
Casualty insurance	26,982	25,800
Liability insurance	147,118	55,959
Motor third-party liability insurance	43,707	54,634
Other motor insurance	22,716	6,759
Fire and property insurance	9,934	16,157
of which:		
a) Fire insurance	9,934	16,157
Marine and aviation insurance	15,527	18,758
Legal protection insurance	3,820	–
Other insurance	281	–
Total	**270,085**	**178,067**
Business accepted for reinsurance	328,853	373,121
Total insurance business	**598,938**	**551,188**

D. I. Provision for pensions and similar liabilities

As required by the German Accounting Law Modernisation Act (*Bilanzrechtsmodernisierungsgesetz*; BilMoG), the provision for pensions was measured at the settlement amount, taking into account salary and pension trends as well as employee turnover rates, and discounted to the balance sheet date. The assumed rates of increase were 2.50% for salaries and 1.86% for pensions. The assumed probable employee turnover rates are shown in the table below.

Probable staff turnover rates in %

Age	Men	Women
20	37.0	21.2
25	12.3	9.3
30	8.9	8.4
35	7.0	7.4
40	5.8	5.1
45	5.1	4.6
50	4.3	4.6
55	3.2	5.1
60 or older	0.0	0.0

The provision for pensions was discounted using an interest rate of 4.00% and assuming a remaining term of 15 years. In the 2010 balance sheet year, the option in Article 67(1) sentence 1 of the Introductory Act to the German Commercial Code (*Einführungsgesetz zum Handelsgesetzbuch;* EGHGB) to distribute the required addition to the provisions for pensions over the maximum of 15 years. The reforms of § 253 Para 2 HGB with respect to the calculation of the valuation interest rate lead to a reduction in the provision for old age pensions compared to the prior year. This balance sheet flexibility was used to add most of the allocated amounts still outstanding at the beginning of financial year to provisions for post-employment benefits obligations.

Provision for pensions

EUR thousand	
Provision for pensions as at 31 December 2015	**365,582**
Use	24,019
Addition	54,899
Accrued interest/interest rate change	10,525
Discounting	1,332
Exchange rate fluctuations	-6,231
Balance (carried forward)	5,315
Provision for pensions recognised as at 31 December 2016	**407,403**

The settlement amount for the employer-funded provision for pensions as at 31 December 2016 was EUR 446,526 thousand. The fair value of the funds held as cover for this amount as at 31 December 2016 was EUR 44,526 thousand. The amortised cost was EUR 42,207 thousand. The settlement amount for the employee-funded provision for pensions was EUR 10,538 thousand. Nettable plan assets totalling EUR 9,673 thousand represent pension liability insurance claims offset the amount of EUR 9,540 thousand with the obligations. The amortised cost determined according to the lower of cost or market principle and thus the fair value within the meaning of section 255(4) sentence 3 HGB is equal to the so-called actuarial reserves of the insurance agreement plus excess. Income from plan assets for pension obligations in the amount of EUR 216 thousand was netted with expenses from the unwinding of the discount on provisions for pension obligations in the amount of EUR 304 thousand in the reporting period.

The difference in accordance with § 253 Para 6 sentence 1 amounts to EUR 54,277 thousand. In order to calculate the difference, the commitment discounted at the average interest rate of the past ten years and recognised was compared to the amount that would have resulted if it had been discounted at the average interest rate of the past seven years.

The amounts not recognised as provisions for current pensions, vested pension benefits or similar obligations on the balance sheet by exercising the option according to Article 67(1) sentence 1 EGHGB are equal to EUR 2,815 thousand.

D. III. Other provisions

	31.12.2016	31.12.2015
EUR thousand		
Remuneration payable	25,031	23,233
Interest on additional taxes resulting from the tax audit	10,830	11,090
Partial retirement*	7,361	7,270
Consulting costs	7,279	5,482
Vacation claims and credit balances in flextime accounts	6,120	5,444
Anniversary bonuses	4,382	4,164
Costs for the preparation of the annual financial statements	2,841	2,366
Provisions for costs	2,859	2,422
Administrave expenses of foreign branch offices	674	1,716
Outstanding invoices for building-related expenses	1,594	1,639
Pension fund	1,045	1,008
Exchange differences	275	3,197
Foreign exchange risk	–	5,000
Miscellaneous	3,700	3,154
Total	**73,991**	**77,185**

** The settlement amount of the provision of partial retirement was equal to EUR 12,651 thousand. The fair value of the funds held as cover for this amount as at 31 December 2016 was EUR 5,290 thousand. The amortised cost was equal to EUR 5,223 thousand.*

F. III. Other liabilities

	Term < 1 year 31.12.2016	Term < 1 year 31.12.2015	Term > 1 year 31.12.2016	Term > 1 year 31.12.2015	Total 31.12.2016	To 31.12.20
EUR thousand						
Liabilities to affiliated companies*	107,738	70,107	–	–	**107,738**	**70,1**
Liabilities not yet attributed	69,525	79,718	–	–	**69,525**	**79,7**
Liabilities from non-group lead business	48,922	42,077	–	–	**48,922**	**42,0**
Liabilities due to tax authorities	47,936	60,470	–	–	**47,936**	**60,4**
Liabilities from un-cashed cheques	4,717	4,820	–	–	**4,717**	**4,8**
Liabilities from interest on hybrid capital**	3,284	3,275	–	–	**3,284**	**3,2**
Liabilities from the investing activities based on claim payments	4,275	–	–	–	**4,275**	
Trade payables	1,036	626	3,286	1,616	**4,322**	**2,2**
Liabilities to social security institutions	917	1,800	–	–	**917**	**1,8**
Liability from the acquisition of corporate bonds	597	–	916	–	**1,513**	
Miscellaneous	3,502	3,601	–	–	**3,502**	**3,6**
Total	**292,449**	**266,494**	**4,202**	**1,616**	**296,651**	**268,1**

**This includes a liability from the transfer of profits in the amount of EUR 67,785 (27,059) thousand to Talanx AG*

***Of which EUR 329 thousand can be attributed to HDI Versicherung AG and EUR 2,955 thousand to HDI Lebensversicherung AG*

Other liabilities do not include any liabilities with a remaining term to maturity of more than five years.

G. Deferred income

Deferred income in the amount of EUR 1,259 (382) thousand represents other deferred income.

Income statement

I. 1.a) Gross premiums written

Direct written insurance business

	2016	2015
EUR thousand		
Casualty insurance	129,521	114,883
Liability insurance	865,511	842,030
Motor third-party liability insurance	220,950	238,196
Other motor insurance	127,068	139,460
Fire and property insurance	517,346	517,183
of which:		
a) Fire insurance	180,050	188,463
b) Engineering insurances	273,233	265,167
c) Other property insurance	64,063	63,553
Marine and aviation insurance	285,147	302,260
All-risk insurance	499,348	489,566
Legal protection insurance	20,798	20,311
Other insurance	77,413	71,129
Total	**2,743,102**	**2,735,018**
Business accepted for reinsurance	1,255,606	1,244,747
Total insurance business	**3,998,708**	**3,979,765**

Origin of gross written premiums for the direct written insurance business

	2016	2015
EUR thousand		
a) In Germany	1,484,898	1,553,479
b) Other member states of the European Community as well as other treaty states of the Agreement Creating the European Economic Area	948,035	884,661
c) Third countries	310,169	296,878
Total	**2,743,102**	**2,735,018**

I. 1. Gross premiums earned

Direct written insurance business

	2016	2015
EUR thousand		
Casualty insurance	128,769	116,817
Liability insurance	852,870	838,162
Motor third-party liability insurance	218,770	236,394
Other motor insurance	127,165	139,240
Fire and property insurance	500,511	501,080
of which:		
a) Fire insurance	175,437	189,859
b) Engineering insurances	262,542	247,917
c) Other property insurance	62,532	63,304
Marine and aviation insurance	285,350	305,005
All-risk insurance	501,016	486,736
Legal protection insurance	20,655	19,842
Other insurance	74,616	70,124
Total	**2,709,722**	**2,713,400**
Business accepted for reinsurance	1,252,920	1,257,402
Total insurance business	**3,962,642**	**3,970,802**

I. 1. Net premiums earned

Direct written insurance business

	2016	2015
EUR thousand		
Casualty insurance	92,326	85,954
Liability insurance	511,436	336,757
Motor third-party liability insurance	195,119	211,595
Other motor insurance	112,889	124,282
Fire and property insurance	235,873	213,146
of which:		
a) Fire insurance	77,259	69,110
b) Engineering insurances	133,328	118,653
c) Other property insurance	25,286	25,383
Marine and aviation insurance	205,653	211,286
All-risk insurance	113,938	122,547
Legal protection insurance	16,478	16,821
Other insurance	45,199	52,907
Total	**1,528,911**	**1,375,295**
Business accepted for reinsurance	408,198	409,965
Total insurance business	**1,937,109**	**1,785,260**

I. 2. Underwriting interest income

In the direct written gross insurance business, underwriting interest income was calculated on the annuity provision. The underwriting interest income is calculated as 1.25 % of the average of the opening balance and the closing balance of the provision.

I. 4. Gross expenses on insurance claims

Direct written insurance business

	2016	2015
EUR thousand		
Casualty insurance	78,092	79,100
Liability insurance	402,597	791,945
Motor third-party liability insurance	189,001	196,395
Other motor insurance	100,646	118,603
Fire and property insurance	495,318	467,677
of which:		
a) Fire insurance	302,377	310,309
b) Engineering insurances	175,765	143,601
c) Other property insurance	17,176	13,767
Marine and aviation insurance	250,002	396,275
All-risk insurance	263,245	427,683
Legal protection insurance	15,489	32,464
Other insurance	38,728	32,559
Total	**1,833,118**	**2,542,701**
Business accepted for reinsurance	556,260	690,954
Total insurance business	**2,389,378**	**3,233,655**

I. 7.a) Gross expenses for insurance operations

Direct written insurance business

	2016	2015
EUR thousand		
Casualty insurance	28,431	25,873
Liability insurance	148,281	148,606
Motor third-party liability insurance	38,377	41,678
Other motor insurance	22,790	25,003
Fire and property insurance	106,173	110,866
of which:		
a) Fire insurance	34,174	38,857
b) Engineering insurances	58,003	56,757
c) Other property insurance	13,996	15,252
Marine and aviation insurance	65,488	66,893
All-risk insurance	86,898	79,866
Legal protection insurance	4,951	4,950
Other insurance	23,532	22,689
Total	**524,921**	**526,424**
Business accepted for reinsurance	247,640	242,253
Total insurance business	**772,561**	**768,677**

Of the gross expenses for insurance operations for the financial year, EUR 111,392 (101,985) thousand are attributable to acquisition expenses and EUR 661,169 (666,692) thousand are attributable to general and administrative expenses.

Reinsurance balance

Direct written insurance business

	2016	2015
EUR thousand		
Casualty insurance	-13,888	-8,350
Liability insurance	-224,828	54,541
Motor third-party liability insurance	-4,442	-3,447
Other motor insurance	197	-1,965
Fire and property insurance	61,891	44,468
of which:		
a) Fire insurance	93,494	103,373
b) Engineering insurances	-4,060	-36,446
c) Other property insurance	-27,543	-22,459
Marine and aviation insurance	-9,206	107,316
All-risk insurance	-180,826	-33,141
Legal protection insurance	909	8,562
Other insurance	-2,570	1,370
Total	**-372,763**	**169,354**
Business accepted for reinsurance	-430,842	-219,349
Total insurance business*	**-803,605**	**-49,995**

- = in favor of the reinsurers

The reinsurance balance is calculated as the reinsurers' earned premiums and the reinsurers' share of gross expenses on insurance claims and gross expenses for insurance operations.

** The balance for the reinsurance business includes a total amount of EUR 329 (444) million for non-cash reinstatement premiums. This breaks down into EUR 286 (388) million for the direct written insurance business and EUR 43 (56) million for the business accepted for reinsurance.*

I. 11. Underwriting result for own account

Direct written insurance business

	2016	2015
EUR thousand		
Casualty insurance	4,725	3,880
Liability insurance	-12,987	-36,181
Motor third-party liability insurance	-2,086	41,095
Other motor insurance	-11,750	-12,976
Fire and property insurance	-41,933	-29,094
of which:		
a) Fire insurance	-68,166	-50,508
b) Engineering insurances	22,412	9,701
c) Other property insurance	3,821	11,713
Marine and aviation insurance	-37,351	-16,767
All-risk insurance	-29,676	-54,238
Legal protection insurance	-3,963	-8,564
Other insurance	9,440	16,350
Total	**-125,581**	**-96,495**
Business accepted for reinsurance	69,183	20,719
Total insurance business	**-56,398**	**-75,776**

Run-off result for own account

In the financial year, HDI Global SE realised a run-off profit in the amount of EUR 265,859 (422,557) thousand. The information on the run-off results for the individual lines of business are discussed in the management report under "results of operations".

Commissions and other compensation for insurance agents, personnel expense

EUR thousand		
1. Commissions of any kind for insurance agents within the meaning of § 92 HGB for direct written insurance business	243,658	242,644
2. Wages and salaries	208,541	198,520
3. Social insurance contributions and expenses for benefits	35,381	34,885
4. Expenses for retirement benefits	-11,175	22,030
5. Total expenses	**476,405**	**498,079**

Number of insurance contracts with a minimum term of one year

Direct written insurance business

	2016	**2015**
Number		
Casualty insurance*	48,154	49,561
Liability insurance	71,789	60,538
Motor liability insurance*	573,894	608,446
Other motor vehicle insurance*	320,321	359,491
Fire and property insurance	40,803	41,569
of which:		
a) Fire insurance	9,335	10,107
b) Engineering insurance	23,948	22,812
c) Other property insurance	7,520	8,650
Marine and aviation insurance	22,417	17,150
All-risk insurance	14,342	13,343
Legal protection insurance	9,517	6,639
Other insurance	27,862	22,862
Total	**1,129,099**	**1,179,599**
Total of all contracts	780,069	789,958
Change due to inclusion of risks under motor insurance	349,030	389,641
Total insurance business	**1,129,099**	**1,179,599**

**With respect to accident insurance and motor insurance, this represents the number of risks.*

II. 4. Other income

	2016	2015
EUR thousand		
Income from services rendered	25,948	21,934
Currency exchange gains	13,943	40,123
Income from the reversal of other provisions	6,694	6,178
Income from the sale of renewal rights	6,204	0
Income from the derecognition of liabilities	3,556	2,656
Income from plan assets for pension obligations	1,098	847
Interest and similar income	780	929
Income from reversal of specific and global valuation allowances	328	2,765
Miscellaneous	2,062	4,218
Total	**60,613**	**79,650**

II. 5. Other expenses

	2016	2015
EUR thousand		
Expenses for services	21,121	19,827
Currency exchange losses	15,632	21,882
Additions to the interest portion of the provision for pensions	12,352	18,361
Interest expense*	12,073	15,321
Expenses for the Company as a whole	10,326	14,882
Project cost for the migration of the foreign branch offices	8,720	5,991
Other expenses from cost unit accounting	7,550	7,171
Write-downs of receivables	7,039	12,280
Amortisation and write-downs of intangible fixed assets	4,810	4,070
Miscellaneous	3,088	3,056
Total	**102,711**	**122,841**

** This also includes expenses of EUR 173 thousand from the application of the discount.*

As a general rule, expenses arising from changes in interest rates for pension obligations are stated under other expenses in compliance with IDW AcP HFA 30 para. 87 starting in 2016. In the current year, the statutory change for the calculation of the actuarial interest rate as a ten-year average instead of the previous seven-year average led here to a gain that was correspondingly recognised under other income. In the prior year, expenses arising from changes in interest rates were still allocated to the functional areas in the underwriting by means of cost allocation. The use of the disclosure option facilitates greater transparency in the presentation of expenses for the ongoing insurance business compared to the capital market and regulatory influences on the existing pension obligations.

II. 8. Extraordinary result

The extraordinary result of EUR -53,710 (-8,800) thousand mainly reflects the full funding – to a large extent – of provisions for pensions in accordance with the German Accounting Law Modernisation Act (BilMoG) in the amount of EUR 54,275 thousand.

II. 10. Other taxes

Other tax expenses in the amount of EUR 8,584 thousand mainly include other tax expense on the part of a foreign branch office in the amount of EUR 6,197 thousand.

Since HDI Global SE in its relationship with Talanx AG is a consolidated tax group subsidiary (Organgesellschaft), deferred taxes on measurement differences of the German parent company were presented at the level of the consolidated tax group parent (Organträger), so that only differences between the carrying amounts in the financial accounts and in the local tax accounts of the foreign branch office are to be taken into account.

The anticipated future tax expenses and refunds were netted when determining tax amounts to be accrued. For this purpose, deferred tax liabilities (in particular from other receivables/management accounts and settlement accounts, accounts receivable from the reinsurance business and provisions for premium transfers) were netted with the deferred tax assets of all foreign branch offices (in particular with respect to the differing carrying amounts in the financial accounts and in the local tax accounts of the receivables from direct written insurance business as well as the equalisation reserve). Deferred taxes were measured based on the local tax rate.

The deferred tax assets in excess of net deferred taxes were not recognised in accordance with section 274(1) sentence 2 HGB.

Other disclosures

Employees

	2016	2015
Number (average)		
Full-time employees	2,325	2,230
Part-time employees	354	333
Total	**2,679**	**2,563**

Governing bodies of the Company

Please find the names of the members of the Supervisory Board and the Board of Management in the overview on pages 8 and 9 of this report.

Remuneration for the members of governing bodies and advisory boards

Remuneration for the members of the Board of Management totalled EUR 4,972 (4,712) thousand. Total remuneration for the Supervisory Board was equal to EUR 72 (71) thousand and remuneration for the Advisory Board totalled EUR 641 (699) thousand. The remuneration of former Board of Management members and their survivors totalled EUR 4,798 (4,733) thousand. A total of EUR 56,176 (57,696) thousand was recognised for pension liabilities due to former Management Board members and their survivors.

Important agreements

A control and profit-and-loss transfer agreement is in effect with Talanx AG as the controlling entity. Control and profit-and-loss transfer agreements are further in effect between HDI Global SE as the controlling company and, respectively, Nassau Assekuranzkontor GmbH, HDI Schadenregulierung GmbH (formerly: HDI-Gerling Schadenregulierung GmbH), HDI Risk Controlling GmbH (formerly: HDI-Gerling Sicherheitstechnik GmbH) and HDI Global Network AG (formerly: HDI-Gerling Welt Service AG) as the controlled companies.

Shareholdings in the Company

The sole shareholder of HDI Global SE is Talanx AG, which holds 100% of the share capital. Talanx AG has notified us that it holds a direct majority interest in HDI-Gerling Industrie Versicherung AG (currently trading under the name of HDI Global SE), Hannover (notice pursuant to section 20(4) AktG) and that it holds more than one fourth of the shares of HDI-Gerling Industrie Versicherung AG (currently trading under the name of HDI Global SE) directly at the same time (notice pursuant to section 20(1) and (3) AktG).

Contingencies and other financial obligations

HDI Global SE is a member of Verkehrsopferhilfe e.V., Hamburg. As a result of this membership, it is obligated to contribute to the potential payments made by the association as well as its general and administrative expenses in line with our pro-rata share of the premium income generated by the members of the association in direct written motor liability insurance in the next to last calendar year.

As a member of the Pharma-Rückversicherungs-Gemeinschaft, HDI Global SE is required to assume a pro-rata share of the outstanding obligations in the event that any of the remaining members becomes insolvent. The similar obligation exists under a contractual agreement with the Deutsche Kernreaktor-Versicherungsgemeinschaft as regards a default of one of the association members.

The carrying amount of the assets pledged, assigned or deposited as security is equal to EUR 100,309 (68,957) thousand.

Talanx AG, Hannover, assumed the fulfilment of the Company's obligations for old age pensions from former employees for internal and external arrangements. Under this pension commitment, the Company has a joint liability in an amount totalling EUR 56,101 thousand as at the end of the financial year.

As a result of the spin-offs of various divisions from HDI Global SE to HDI-Gerling Firmen und Privat Versicherung AG or HDI Direkt Versicherung AG (currently trading under the name HDI Versicherung AG) completed in 2007, HDI Global SE is joint and severally liable as the transferring legal entity in accordance with section 133 of the German Transformation Act (Umwandlungsgesetz; UmwG) for liabilities to HDI Versicherung AG (as the legal successor of HDI-Gerling Firmen und Privat Versicherung AG) incurred before the spin-off took effect. HDI Global SE is only liable for the obligations transferred to the assuming legal entities for a period of five years or, in the case of pension obligations based on the Occupational Pensions Act (*Betriebsrentengesetz*; BetrAVG), for a period of ten years. As a result of the spin-offs of various participations from HDI Global SE to HDI-Gerling Firmen und Privat Versicherung AG or HDI Service AG (currently trading under the name Talanx Service AG) or HDI-Gerling International Holding AG (currently trading under the name Talanx International AG) completed in 2007 and 2008, HDI Global SE is joint and severally liable as the transferring legal entity in accordance with section 133 UmwG for the liabilities on the part of HDI Global SE to HDI Versicherung AG (as the legal successor of HDI-Gerling Firmen und Privat Versicherung AG) and/or Talanx Service AG and/or Talanx International AG incurred before the spin-off took effect. As a result of the spin-off of a division from HDI-Gerling Rechtsschutz Versicherung AG to HDI Global SE completed in 2010, HDI Global SE is joint and severally liable as the assuming legal entity for the liabilities on the part of HDI-Gerling Rechtsschutz Versicherung AG (currently trading as ROLAND Rechtsschutz-Versicherungs-AG) incurred before the spin-off took effect. HDI Global SE is only liable for the obligations remaining with the transferring legal entity for a period of five years or, in the case of pension obligations based on the Occupational Pensions Act (*Betriebsrentengesetz*; BetrAVG), for a period of ten years. As a result of the spin-off of various equity investments from HDI-Gerling International Holding AG (currently trading as Talanx International AG) to HDI Global SE that were implemented in the year 2010, HDI Global SE as the legal successor is liable pursuant to section 133 UmwG together with Talanx International AG as a joint and several debtor, for the liabilities of Talanx International AG that were created prior to the effectiveness of the spin-off, and is so liable for a period of five years, or for a period of ten years for pension obligations based on the Occupational Pensions Act (Betriebsrentengesetz). The total amount of these liabilities is equal to EUR 32,136 thousand.

The shortfall due to pension obligations within the meaning of Article 28(1) EGHGB that is not recognised on the balance sheet is equal to EUR 1,338 thousand.

As the sponsoring undertaking for Gerling Versorgungskasse VVaG, the Company is proportionately liable for any deficits at Gerling Versorgungskasse.

Other financial obligations in the amount of EUR 2,969 thousand are related to guaranteed credits (*Avalkredite*) and bank guarantees (*Bankgarantien*). Letters of credit in effect with various banks total EUR 585,576 thousand. In addition, there are obligations under fixed liability guarantees to Group companies in the amount of EUR 28,000 thousand.

The Board of Management of our Company views the probability that obligations arising from the above contingent liabilities will result in actual claims and payments to be low.

There are contribution obligations to the following contracting parties:

Name	
EUR thousand	
HDI AI USD Beteiligungs-GmbH & Co. KG (vormals: HDI AI USD Beteiligungs-GmbH & Co. KG), Köln	141,627
HDI AI EUR Beteiligungs-GmbH & Co. KG (vormals: HG-I Alternative Investments Beteiligungs-GmbH & Co. KG), Köln	87,490
Aegon Investment Management B.V. (AIM B.V.)	50,000
Gode Wind 1 Investor Holding	6,147
Clouth 104 Grundstücksgesellschaft mbH	6,000
NRD Stuttgart KB32 Part. Darlehen (Nachrang)	5,500
NRD Citygate Bremen (Nachrang) MC	4,250
EQT Credit II (No. 1) L.P.	2,434
Equity Partners IV GmbH & Co. KG	2,200
Ares Capital Europe II (E), L.P.	1,520
Equity Partners III GmbH & Co. KG	1,427
NRD Lindenallee Essen (Nachrang)	1,100
Total	**309,695**

There is an obligation to Magma HDI General Insurance Ltd., Calcutta, to participate in capital increases in proportion to the ownership interest.

There are other contractual obligations to moderne stadt Gesellschaft zur Förderung des Städtebaus und der Gemeindeentwicklung mbH, Cologne, in the amount of EUR 19,407 thousand and Lang & Cie. Achtzehnte Projektentwicklung GmbH & Co. KG, Frankfurt a. M., in the amount of EUR 51,735 thousand.

There are no further call commitments on shares and equities, notes payable or other contingent liabilities of any kind.

Related party disclosures

The Company is engaged in extensive reinsurance agreements with companies in the Talanx Group. Appropriate considerations are paid and received for all reinsurance coverage as well as any and all services that are received and/or rendered in connection with this protection. To that extent, this business has no effect on the net assets or results of operations when compared to the use and rendering of the described services by or for companies that are not related parties.

In the reporting period, there were no non-arms' length transactions with related parties that were relevant to an assessment of the financial position or results of operations.

Total audit fees

The fee for the independent auditor – broken down into expenses for audit service, for other certification services, for tax advisory services and for other services – are included in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V. a. G. and Talanx AG on a pro-rata basis.

Consolidated financial statements

The Company is a member company of the HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover and of Talanx AG, Hannover. HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (the parent company of the HDI Group) prepares consolidated financial statements (for the largest group of companies) according to § 341 i HGB that includes the Company within the basis of consolidation. Talanx AG as the parent company of the Talanx Group is further required to prepare consolidated financial statements (for the smallest group of companies) pursuant to section 290 HGB, which are prepared – as provided for in section 315a(1) HGB – on the basis of the International Financial Reporting Standards (IFRS) adopted for the European Union (EU) in accordance with article 4 of Regulation (EC) No. 1606/2002. The consolidated financial statements are published in the German Federal Gazette (*Bundesanzeiger*). The inclusion of HDI Global SE in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit and Talanx AG exempts the Company in accordance with section 291(1) HGB from preparing its own consolidated financial statements.

Report on post-balance sheet date events

There were no known significant events after the closing of the financial statements that might have a material effect on the net assets, financial position and results of operations of the Company.

Hannover, 3 March 2017

The Board of Management

Dr. Christian Hinsch

Dr. Joachim ten Eicken	Frank Harting	Dr. Edgar Puls
Dr. Stefan Sigulla	Jens Wohlthat	Ulrich Wollschläger

Auditor’s report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of HDI Global SE, Hannover for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the Company's articles of association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, Incorporated Association - IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions of the articles of association and give a true and fair view of the net assets, financial position and results of operations of HDI Global SE in accordance with German principles of proper accounting (*Grundsätze ordnungsmäßiger Buchführung*; GoB). The management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, 8 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Möller
Wirtschaftsprüfer
[German public auditor]

Neuschulz
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Konzernstruktur
Group structure

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

- HDI Global SE
- HDI Versicherung AG (Austria)
- HDI Global Seguros S.A. (Brazil)
- HDI Global Network AG
- HDI-Gerling de México Seguros S.A.
- HDI-Gerling Verzekeringen N.V. (Netherlands)
- HDI Global SA Ltd. (South Africa)
- HDI Global Insurance Company (USA)

Geschäftsbereich Privat- und Firmenversicherung Deutschland
Retail Germany Division

Schaden/Unfallversicherung
Property/Casualty Insurance

Lebensversicherung
Life Insurance

- Talanx Deutschland AG
- HDI Versicherung AG
- neue leben Unfallversicherung AG
- PB Versicherung AG
- TARGO Versicherung AG
- HDI Lebensversicherung AG
- HDI Pensionskasse AG
- neue leben Lebensversicherung AG
- PB Lebensversicherung AG
- PB Pensionsfonds AG
- Talanx Pensionsmanagement AG
- TARGO Lebensversicherung AG

Geschäftsbereich Privat- und Firmenversicherung International
Retail International Division

- Talanx International AG
- HDI Seguros S.A. (Argentina)
- HDI Seguros S.A. (Brazil)
- HDI Seguros S.A. (Chile)
- HDI Seguros S.A. de C.V. (Mexico)
- HDI Seguros S.A. (Uruguay)
- TUiR WARTA S.A. (Poland)
- TU na Życie WARTA S.A. (Poland)
- TU na Życie Europa S.A. (Poland)
- TU Europa S.A. (Poland)
- OOO Strakhovaya Kompaniya „CiV Life“ (Russia)
- OOO Strakhovaya Kompaniya „HDI Strakhovanie“ (Russia)
- HDI Assicurazioni S.p.A. (Italy)
- Magyar Posta Biztosító Zrt. (Hungary)
- Magyar Posta Életbiztosító Zrt. (Hungary)
- HDI Sigorta A.Ş. (Turkey)

Geschäftsbereich Rückversicherung
Reinsurance Division

Schaden-Rückversicherung
Property/Casualty Reinsurance

Personen-Rückversicherung
Life/Health Reinsurance

- Hannover Rück SE
- E+S Rückversicherung AG
- Hannover ReTakaful B.S.C. (c) (Bahrain)
- Hannover Re (Bermuda) Ltd.
- Hannover Reinsurance Africa Limited
- International Insurance Company of Hannover SE
- Hannover Life Re of Australasia Ltd
- Hannover Life Reassurance Bermuda Ltd.
- Hannover Re (Ireland) DAC
- Hannover Life Reassurance Africa Limited
- Hannover Life Reassurance Company of America

Konzernfunktionen
Corporate Operations

- Talanx Asset Management GmbH
- Ampega Investment GmbH
- Talanx Immobilien Management GmbH
- Talanx Service AG
- Talanx Systeme AG
- Talanx Reinsurance Broker GmbH
- Talanx Reinsurance (Ireland) Plc.

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2016

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