HDI Global SE

2018 Annual Report

HDI Global SE at a glance

		2018	2017
Gross premium income	EUR million	4,616	4,401
Increase/decrease in gross premium income	%	4.9	10.1
Income from premiums earned for own account	EUR million	2,223	2,157
Expenses on insurance claims for own account	EUR million	1,999	1,901
Loss ratio for own account[1)]	%	89.9	88.2
Expenses for insurance operations for own account	EUR million	528	527
Expense ratio for own account[2)]	%	23.7	24.4
Underwriting result before equalisation reserve for own account	EUR million	-302	-279
Combined ratio for own account[3)]	%	113.7	112.6
Investments	EUR million	7,121	6,637
Investment income	EUR million	358	299
Non-underwriting result [4)]	EUR million	205	244
Result from ordinary activities	EUR million	-85	-167
Tax expense	EUR million	32	34
Loss (–)/ profit transferred under a profit-and-loss transfer agreement	EUR million	--118	-204
Operating profit/loss (result from ordinary activities less changes in the equalisation reserve)	EUR million	-97	-35
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	718	731
Other underwriting provisions for own account[5)]	EUR million	6,117	5,629
Total	EUR million	7,442	6,967
Of earned premiums for own account	%	334.8	323.0
Ratio of underwriting provisions for own account[6)]	%	250.3	236.6
Insurance contracts	1,000	1,185	1,004
Reported claims	1,000	265	255
Average number of employees throughout the year	Number	2,878	2,871

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. Monetary amounts that are smaller than EUR 0.5 thousand are shown as ‚0‘. Figures that are not available for the Company are marked with an ‚n-dash‘.

Contents

Ladies and Gentlemen,

In this annual report we look back on a challenging insurance year. The key figures of the balance sheet show this quite clearly: While HDI Global SE's gross written premiums increased by EUR 215 million to EUR 4,616 million (previous year: EUR 4,401 million), the combined ratio deteriorated to 113.7 (112.6) percent on a net basis and the underwriting result before allocations to the equalisation reserve declined considerably to EUR –302 (–279) million. At EUR –97 (–35) million, net operating income remained behind the already weak previous year.

The poor loss experience in the fire insurance line is a major reason for these dissatisfying figures. According to market data of the German Insurance Association (GDV), industrial fire insurance in Germany reached one of the highest values in the history of fire insurance with a combined ratio of 129 percent in 2018.

HDI Global SE wasn‘t able to escape this market trend and closed the financial year with a very negative result in the fire insurance line. From the perspective of the Board of Management, this is the part of our underwriting business that needs the most work at this time.

Premiums in the German fire insurance market have fallen continuously for 15 years and have reached a level that is much too low, currently at 40% of the value of 2003.

Therefore, we initiated a consistent worldwide "20/20/20" restructuring programme in the fire insurance line in May 2018.

The implementation of the programme is making good progress. In the current year 2019, we are striving for a 10% increase in premiums in order to return us overall to black by the year 2020 with respect to underwriting in industrial insurance. We still have a long way to go. In addition to price increases, we will also continue other measures, such as the expansion of deductibles and the reduction of the scope of cover. All in all, with these steps we see ourselves well on the way to restoring a satisfactory balance of risk and premiums in our fire insurance portfolio.

Our international growth made a valuable contribution to risk diversification in the past year. Last year, we generated roughly two-thirds of our premium volume outside of Germany. We are now active in more than 150 countries with our own employees as well as over network partners.

The HDI Group is thus able to serve its customers with local policies for their global operations, which ensure that the established service and insurance protection are extended for all covered risks worldwide.

In addition, we launched a particularly satisfying growth initiative with HDI Global Specialty SE, the new specialty lines insurer in the HDI Group, which commenced operations at the beginning of the new financial year. HDI Global SE holds 50.2 percent of the shares in the new company, while our Group affiliate Hannover Rück SE holds 49.8 percent. HDI Global Specialty's lines range from Accident & Health, Aviation and Crime & Crisis Management to Energy and Financial Lines to Mining, Political Risk, Pet & Farmpack and Sport & Leisure. Thus, it is active on a market with above-average growth and margins.

My colleagues on the Board of Management and I are filled with great joy and also with pride at the motivation and commitment of our employees. They go above and beyond the customary level of initiative in order to bring our Company back on a safe path in these difficult times for industrial insurers. We would like to thank them sincerely for their efforts!

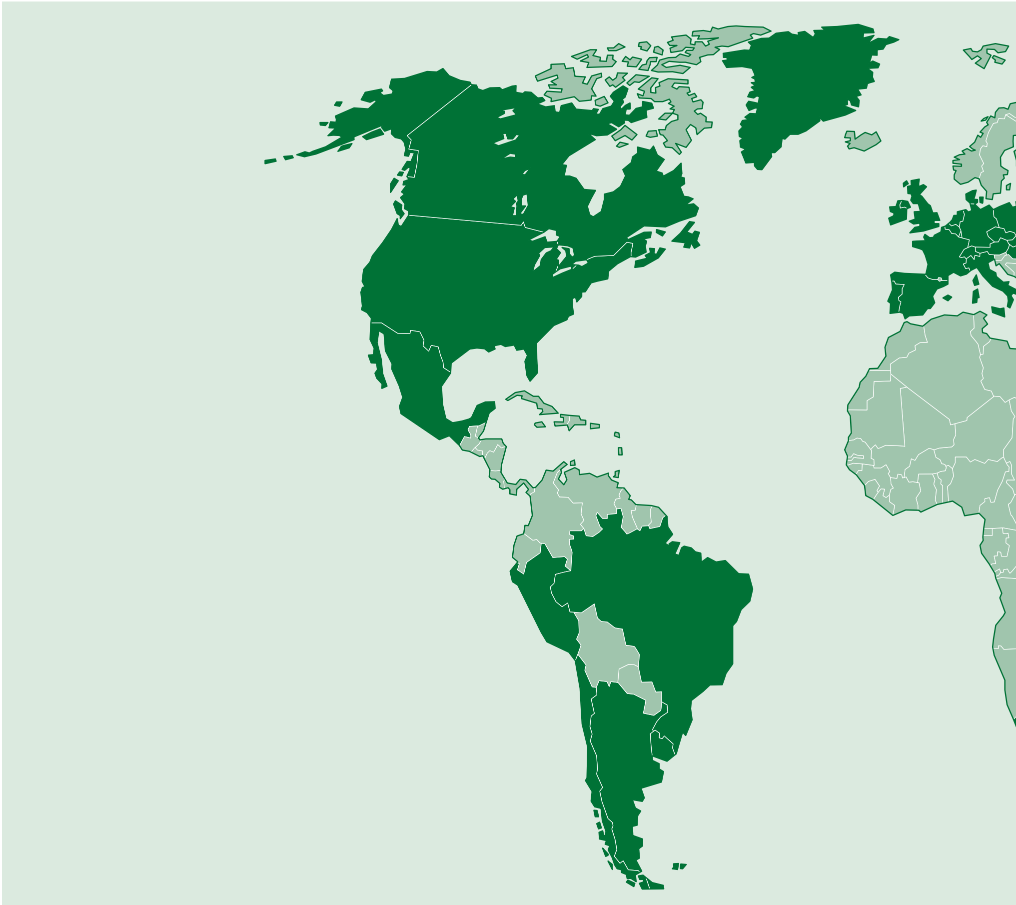
We are also grateful for the very good and constructive dialogue with our customers and business partners as well as for the understanding they demonstrate in large part for the necessity of our restructuring activities. I am absolutely confident that we will continue to provide our customers with modern and viable insurance solutions in the future on the basis of this trust.

Sincerely,

Christian Hinsch

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

HDI world-wide*



Argentina
HDI Seguros S.A.
Buenos Aires

Australia
HDI Global SE
Sydney/Brisbane/Melbourne/Perth

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/Lille/Lyon

Germany
HDI Global SE
Hannover

Greece
HDI Global SE
Athens

Hungary
HDI Versicherung AG
Budapest

India
Magma HDI General Insurance Company Limited
Mumbai
(minority interest)

Ireland
HDI Global SE
Dublin

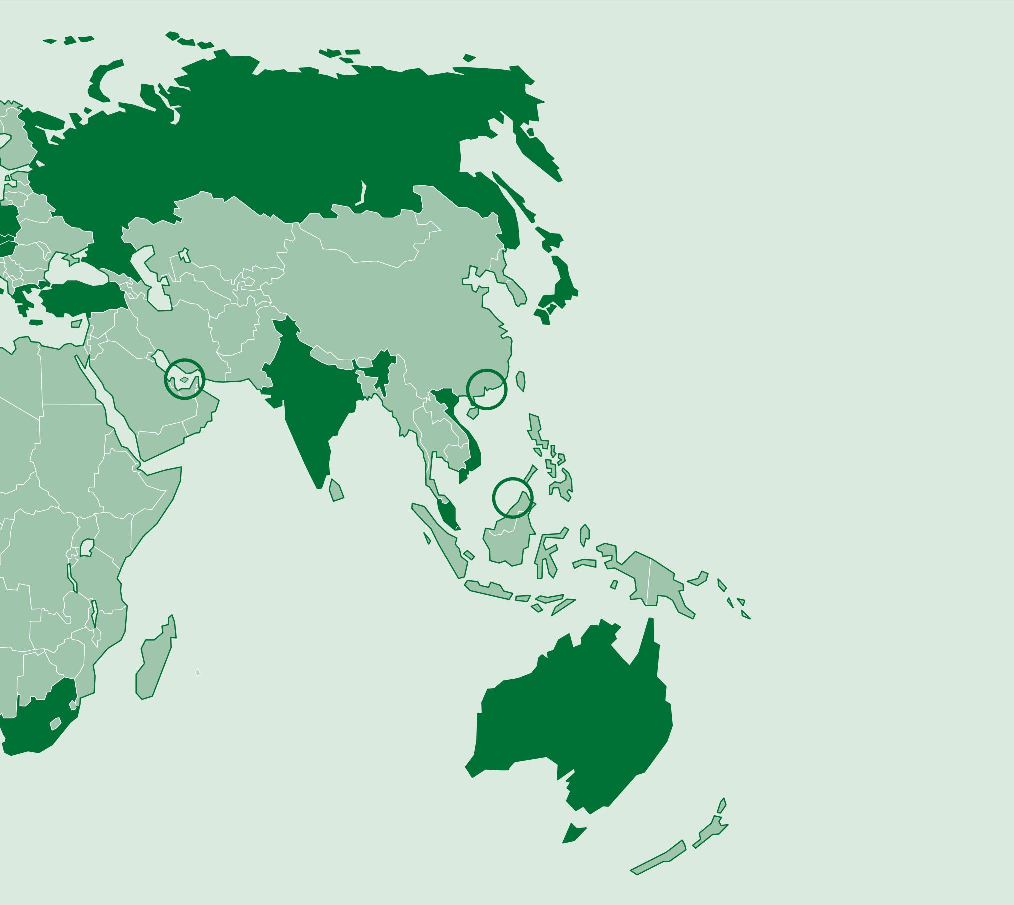
Italy
HDI Global SE
Milan/Genova

Japan
HDI Global SE
Tokyo

Malaysia
HDI Global SE
Labuan

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

Peru
HDI Seguros S.A.
Lima



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)

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

Russia
HDI Global Insurance
Limited Liability Company
Moscow

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

The Netherlands
HDI Global SE
Rotterdam/Amsterdam

HDI-Gerling Verzekeringen
Rotterdam/Amsterdam

*As at 15 January 2018

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

01 South German
Iron and Steel Industry
Dr Michael H Müller
Former 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
Gummersbach

03 North German
Iron and Steel Industry
Jürgen Stulz
Managing Director of
STULZ Holding GmbH and of
STULZ GmbH,
Hamburg
(until 13 June 2018)

Dipl Jur Dirk M. Zschalich
Managing Partner of
HEROSE GmbH,
Bad Oldesloe
(since 1 June 2018)

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
(until 13 June 2018)

Ernst-Michael Hasse
Chairman of the Advisory Board of
Synflex Group,
SH Wire,
Lügde/Blomberg
(since 1 June 2018)

Dr Jochen Kress
Managing Partner of
MAPAL Fabrik für Präzisionswerkzeuge,
Dr. Kress KG,
Aalen
(since 21 June 2017)

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

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

20 Chemicals Companies
Dr Christof Günther
Managing Director of
InfraLeuna GmbH,
Leuna

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
(until 13 June 2018)

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
(until 13 June 2018)

Dipl-Kfm Lambert Lensing-Wolff
Managing Director of
MDHL Medienhaus Lensing
GmbH & Co. KG,
Dortmund
(since 1 June 2018)

55 Ceramics and Glass Companies
Dipl-Kfm Josef Kallmeier
Managing Director of
Porzellanfabriken Christian-Seltmann
GmbH,
Weiden
(since 1 June 2018)

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
Rheda-Wiedenbrück

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

Dipl Ing Gerhard Heidbrink
Sehnde

Dr med Hans-Ulrich Küver
Neurologist and Psychiatrist,
Hannover

Peter Wölker
Lawyer,
Ostbevern

83 Transport and Shipping Industry
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

Torsten Leue
Chairman
(since 9 March 2018)
Hannover
Chairman of the Board of Management of
HDI Haftpflichtverband der
Deutschen Industrie V. a. G. and of
Talanx AG

Herbert Haas
Chairman
(until 9 March 2018)
Burgwedel
Chairman of the Supervisory Board of
HDI Haftpflichtverband der
Deutschen Industrie V. a. G. and of
Talanx AG

Ulrich Weber
Deputy Chairman
Krefeld
Lawyer

Dr Joachim Brenk
Lübeck
Chairman of the
Board of Management of
L. Possehl & Co. mbH

Dr Michael Ollmann
Hamburg
Management Consultant

Sebastian Gascard*
Isernhagen
Underwriter for thirdparty
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
- Compliance
- Internal Auditing

Dr Joachim ten Eicken
(until 31 May 2018)
Member of the Board of Management of
HDI Global SE
responsible for
- Industrial property insurance
- Engineering insurance
- Marine and credit insurance
- Safety engineering systems

Frank Harting
Member of the Board of Management of
HDI Global SE
responsible for
- Aviation insurance
- Group accident insurance (until 30 June 2018)
- Industry Division
- Corporate Division
- Advisory Boards
- Global Marketing

Clemens Jungsthöfel
(since 1 May 2018)
Member of the Board of Management of
HDI Global SE
responsible for
- Accounting
- Premium Collections
- Investments
- Controlling
- Money Laundering Prevention
- Risk Management
- Actuarial Function
- Coordination of passive reinsurance

Dr Thomas Kuhnt
(since 1 July 2018)
Member of the Board of Management of
HDI Global SE
responsible for
- Operations and IP Administration
- IT Demand and Major Projects
- Technical Pricing
- Group accident insurance

Dr Stefan Sigulla
Member of the Board of Management of
HDI Global SE
responsible for
- Industrial liability and legal protection insurance
- D&O insurance, Cyber insurance
- Industrial motor insurance

Dr Edgar Puls
Member of the Board of Management of
HDI Global SE
responsible for
- Industrial property insurance (since 1 June 2018)
- Engineering insurance (since 1 June 2018)
- Marine and credit insurance (since 1 June 2018)
- European Operations
  Foreign branch offices - Continental Europe
- Human Resources
- Safety engineering insurance (since 1 June 2018)
- Major projects (until 30 June 2018)
- IT Demand (until 30 June 2018)

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
- Specialty Business

Ulrich Wollschläger
(until 30 June 2018)
Member of the Board of Management of
HDI Global SE
responsible for
- Accounting
- Premium Collections
- Investments
- Controlling
- Money Laundering Prevention
- 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 2018 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 9 March 2018, 22 August 2018 and 5 November 2018. 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. In addition, the Supervisory Board convened for a constituent session on 9 March 2018 as well as an extraordinary meeting on 7 May 2018.

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 2018 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.

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 composition of the Board of Management as well as the remuneration of its members. With a view to section 87(1) AktG, horizontal and vertical remuneration aspects were applied in comparison and orientation.

Points of focus for the deliberations in plenary sessions

The Supervisory Board's discussions focused, among other things, on the course of the restructuring activities, the further implementation of the globalisation strategy and the reorganisation of the specialty business as well as the initiated IT optimisation projects and/or the progress with respect to the global process and system harmonisation. Furthermore, the operational planning of the Company for financial year 2019 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 2018 as well as the management report presented by the Board of Management, including the accounting, were audited by PricewaterhouseCoopers GmbH, 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 PricewaterhouseCoopers GmbH 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 11 March 2019, 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

Herbert K. Haas resigned as the Chairman and as a member of the Supervisory Board effective at the end of the Annual General Meeting held on 9 March 2018. Torsten Leue, having been recommended accordingly by the Nomination Committee as his successor, was elected as the new member of the Supervisory Board by the Annual General Meeting on 9 March 2018 and then as its Chairman in a constituent session.

The composition of the Board of Management also changed in the 2018 reporting period. Dr Joachim ten Eicken and Ulrich Wollschläger stepped down from the Board of Management effective upon the expiry of 31 May 2018 and 30 June 2018 respectively. Clemens Jungsthöfel and Dr Thomas Kuhnt were appointed as the new members of the Board of Management effective from 1 May 2018 and 1 July 2018 respectively.

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, 11 March 2019

For the Supervisory Board

Torsten Leue
(Chairman)

Management report

Basic principles of the Company

HDI Global SE is an entity 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 comprehensively 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 140 countries through foreign branch offices, subsidiaries and sister subsidiaries as well as a network of partners. A strategic goal of HDI Global SE is globalisation. Additional regional offices were established in the financial year. This way the Company can better serve globally active customers with local policies that guarantee that the specified service and insurance protection are provided worldwide for all included risks.

From third-party liability over 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 the operational capabilities of the Company.

Report on economic position

Macroeconomic and industry-specific environment

Macroeconomic development

The year 2018 began with high expectations of growth thanks to positive economic data and a significant fiscal expansion in the USA but the rest of 2018 was characterised by weakening growth momentum and increasing contradictions in the growth and inflation trend.

The pace of growth in the US economy accelerated appreciably in 2018. While the economy exhibited high rates of growth, other major economic areas mostly posted slowing momentum. Indicators – such as purchasing managers indices and the expansion of global trading volume – subsided continuously over the course of the year. In addition to higher US interest rates, in particular political developments were responsible for the decrease in the momentum of growth worldwide. In particular, the US government’s aggressive trade policy led to a deterioration of the external environment.

The economy in the eurozone was especially affected by the slowing export growth. In addition, the conflict surrounding the Italian budget and the persistently high uncertainty regarding the Brexit negotiations had a negative effect on the business and consumer climate. Following 2.4% growth in 2017, growth in the eurozone slowed to 1.8% in 2018 as a result of weak development in the second half of the year. Even the German economy just barely skirted a recession in the second half of the year as a result of two declining quarters in a row. Gross domestic product grew by 1.5% for the full year after 2.2% in the previous year. In addition to a negative export dynamic, in particular special sectoral factors were responsible for the poor result. Nevertheless, the positive development in the eurozone labour market continued. At 7.9% in December, the unemployment rate fell to its lowest level in ten years. In Germany, the unemployment rate of 4.9% even fell in December to its lowest level since reunification.

An elevated US interest rate level, a strong US dollar and the increasing escalation of the trade conflict over the course of the year put noticeable pressure on the economic performance in developing countries. The concatenation of idiosyncratic events, in particular in Turkey and Argentina, further exacerbated the situation. Economic growth in China was, among other things, further negatively affected by the worsening bilateral trade conflict with the USA. The

6.6% annual growth rate expected for GDP in 2018 fell short of the prior year's 6.9% growth rate.

Due to contradictory economic developments, the inflation trend was also heterogeneous. While the structural pressure on prices further increased in the USA, the price surge in the rest of the world remained largely modest. Accordingly, monetary policy was considerably tighter in the USA, with only very gradual efforts at normalisation on the part of other major central banks. The US Federal Reserve continued its rising interest rate cycle, raising the key interest rate four times, while the ECB discontinued its monthly bond purchases at the end of the year.

With the substantial increase in energy prices, the annual rate of inflation also rose considerably both in the eurozone as well as in the USA to more than approximately 2% and nearly 3%, respectively, over the course of the year. Similarly, with the oil price correction the rate of inflation fell in December to 1.5% in the eurozone and to 1.9% in the USA.

Capital markets
The high rate of growth in the US economy and signs that the inflation trend was accelerating provided for a considerable increase in the interest rate level in the USA – 10-year US Treasuries rose from around 2.4% at the beginning of the year to meanwhile more than 3.2%. At the same time, the economic slowdown in the eurozone together with the political problems led to a substantial decrease in yields on the 10-year Bund from just under 0.8% in February to 0.2% in December. However, as in the previous year, volatility in the bond market remained at a comparably low level overall. The euro fell against the US dollar from an average of EUR 1.23 in the first quarter to EUR 1.14 in the fourth quarter.

Global stock markets started the year 2018 brilliantly. Rising US interest rates, the slowing momentum of global growth and a potpourri of political risks led to a higher level of volatility and an overall weak year for equities after the first stock market correction of around 10% in the first quarter. The DAX fell in the full year by 18.3%, the EURO STOXX 50 by 14.3% and the Nikkei by 12.1%. The S&P 500 performed considerably better – negative all the same – with a loss of 6.2% for the year. Following a positive start to the year, the further course of 2018 was characterised by a clear widening of risk premiums in nearly all spread asset classes.

International insurance markets
Premiums in international property and casualty insurance exhibited slight growth overall for 2018, which was considerably higher in emerging markets than in developed insurance markets.

Losses from natural disasters in the year under review exceeded the long-term average of the past 30 years, but remained below the record loss sums of the previous year. This applied both for total losses as well as for insured losses. The two most costly disasters occurred in the USA: the wild fire "Camp Fire" in Northern California, in which a small town was largely destroyed, and Hurricane "Michael", the fourth strongest storm ever measured in the USA, which raged over the Florida Panhandle in October. Moderate premium increases in some countries and insurance lines led to an increase in profitability in international property and casualty insurance.

North American markets were the drivers of growth in the developed insurance markets. The rising rates in US property insurance following the high losses from natural catastrophes in the previous year contributed to this trend.

In Western European markets, premium growth in property and casualty insurance stagnated in 2018. Declining rates in motor insurance in the UK, among other things, had an inhibiting effect.

In Central and Eastern Europe, the development of insurance markets was characterised by political and economic volatility. While in Poland regulatory changes in the areas of distribution and data protection brought about new challenges for insurance companies, in Turkey the motor insurance business in particular was influenced by the devaluation of the Turkish lira and higher inflation.

In Latin America, the growth dynamic in property and casualty insurance increased overall in the course of the economic recovery, but at a moderate level and at different rates in individual countries. Among other things, rising prices in individual areas of industrial liability insurance (financial and professional liability) had the effect of promoting growth.

The strongest premium growth in emerging markets was again generated in Asia, with the sharpest increases in China and India. The drivers of growth in both countries were agricultural insurances. In contrast, the motor insurance business was in decline in Japan, where there was a decrease in premiums as a consequence of favourable loss trends.

In international property/casualty reinsurance, the market environment was challenging. The insurance line may have benefited from price increases in the year under review, but they were limited to the business affected by major losses in the previous year. After a moderate major loss trend in the first half of 2018, there was an elevated volume of claim expenditures in the second half of the year as a result of natural disasters, in particular in the USA and Asia.

German insurance industry
In property and casualty insurance, the German insurance industry recorded premium growth in 2018 at the prior year's level. In the context of the prolonged low interest rate phase, this points to the continuation of disciplined underwriting on the part of property and casualty insurers.

The balance of German property insurers for payments as a result of natural disasters turned out to be considerably worse in 2018 than in the previous year. More than approximately 80% of the claims payments were attributable alone to losses from storm and hail damage. The natural perils loss profile of 2018 slightly exceeded the 15-year average; it was one of the four most severe years for storms in the past 20 years. The most severe damage was caused by the winter storm "Friederike" in January. As a result of the long, hot and unusually dry summer there was crop damange, most of which was not insured.

Legal and regulatory environment

Insurance companies (primary insurers and reinsurance companies), banks and asset management companies are subject to comprehensive legal and financial supervision by supervisory authorities around the world in order to ensure the stability of the companies and financial markets as well as to protect the companies' customers. In the Federal Republic of Germany, this is the responsibility of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin). On top of this, there is a comprehensive regulation of these companies' operations by way of numerous legal provisions. The intensive further development of the legal framework that could already be observed in prior years and an associated intensification and increasing complexity continued unabated also in 2018.

In light of the Insurance Distribution Directive (IDD) to be implemented in Germany, projects were drawn up ahead of time in the affected Group companies in order to be able to implement the extensive provisions on schedule. These projects were discontinued just before the corresponding statutory provisions took effect in Germany. These legal requirements are aimed in particular at bringing about the best-possible consideration of consumer interests with respect to product development and the distribution of insurance products as well as at far-reaching requirements with respect to the monitoring of products and the product governance of insurance products on the part of insurance companies, but also by insurance brokers.

On 25 January 2017, the BaFin published its Circular 2/2017 (VA) regarding the Minimum Requirements under Supervisory Law on the System of Governance of Insurance Undertakings (Mindestanforderungen an die Geschäftsorganisation von Versicherungsunternehmen; MaGo). This Circular discusses the overarching aspects of business organisation ("system of governance") as well as central terms such as "proportionality", "management boards" and "supervisory boards" from the perspective of the regulatory authority. Regardless of the lack of direct legally binding obligation on the part of this legal opinion published by the BaFin, the MaGo will also be taken into consideration in the structure of the Group's organisation, in particular in the areas of general governance, key functions, the risk management system, requirements on own funds, the internal control system, outsourcing and business continuity management.

The Act transposing the 4th EU Money Laundering Directive into German law (German Money Laundering Act; Geldwäschegesetz; (GWG)) went into effect on 26 June 2017. The affected Group companies have issued rules and initiated organisational measures in order to also meet the new statutory requirements.

Digitalisation has increased in significance in recent years. This is accompanied by a transition to digital, data-based business models; the resulting legal questions and challenges also play an increasingly important role for the companies of the Talanx Group. With a circular regarding Supervisory Requirements for IT in Insurance Undertakings (Versicherungsaufsichtsrechtliche Anforderungen an die IT; VAIT), the BaFin provided instructions for interpreting the provisions governing business organisation in the Insurance Supervision Act (Versicherungsaufsichtsgesetz; VAG) insofar as they relate to the companies' technical/organisational provisioning Furthermore, the agency published guidance for outsourcing to cloud providers.

Like the insurance industry as a whole, the insurance companies of the Talanx Group rely to a large degree 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 aware of the responsibility associated with appropriately handling personal data and are obligated in writing to adhere to the data protection requirements. Protecting the rights of insurance policy holders, employees, shareholders, etc. and the protection of their private sphere are primary objectives of all Group companies. The EU General Data Protection Regulation (GDPR) and the new German Federal Data Protection Act (Bundesdatenschutzgesetz; BDSG) have been applicable law since 25 May 2018. Against this backdrop, the necessary adjustments to processes, contracts and systems were implemented in order to safeguard the rights of affected persons and the obligations on the part of Group companies. The practical interpretation by the authorities and courts and through commentary must now be observed in order to identify any further need for adjustment. The data protection organisation was expanded in accordance with the application area of the GDPR, so that Group standards apply for the locations based in the EU.

Compliance with applicable laws is a requirement for the permanently successful operations of the companies of the Talanx Group. The companies always pay close attention to continuously adapting and further developing the business and its products to statutory reforms as well as to adhering to regulatory and tax frameworks. 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

Insurance business as a whole

	2018	2018	2017	2017
EUR million	**Gross**	**Net**	Gross	Net
Premiums	4,616	2,255	4,401	2,203
Premiums earned	4,573	2,223	4,302	2,157
Expenses for insurance claims	3,876	1,999	3,443	1,901
Expenses for insurance operations	901	528	877	527
Underwriting result for own account		-290		-411
In %				
Loss ratio*	84.8	89.9	80.0	88.2
Expense ratio**	19.7	23.7	20.4	24.4
Combined ratio***	104.5	113.6	100.4	112.6

** Expenses on insurance claims as a percentage of premiums earned.*

*** Expenses on insurance operations as a percentage of premiums earned.*

**** Sum of expenses on insurance claims and expenses on insurance operations as a percentage of premiums earned.*

HDI Global SE was able to post a considerable overall increase in gross written premiums of EUR 215 million to EUR 4,616 (4,401) million in the reporting period, thereby exceeding the expectations. The crucial factor for this development was in particular portfolio growth in the international business in the amount of EUR 181 million, seen in particular in the French, Dutch and Belgian branches. In Germany, a slight increase of EUR 34 million in gross written premiums was posted. This was due to the reorientation of the US-based subsidiary's business model, which provides for a sharper strategic focus on the underwriting of retained local industrial insurance risks. As a result, the volume of premiums ceded to HDI Global SE was lower.

Gross premiums for the financial year

EUR million, %		
Liability insurance	1,351	29.3
All-risk insurance	1,311	28.4
Engineering insurance	490	10.6
Marine and aviation insurance	453	9.8
Motor insurance	446	9.7
Fire insurance	215	4.6
Casualty insurance	197	4.3
Other insurance	153	3.3
Total	**4,616**	**100.0**

Net premiums earned rose more modestly by EUR 66 million to EUR 2,223 (2,157) million, which can be attributed to a greater amount of business ceded in the legal protection and aviation lines.

Gross expenses on insurance claims rose by EUR 433 million to EUR 3,876 (3,443) million as a result of higher claims expenses from individual claims in the year under review. Claims expenses for the financial year increased by EUR 154 million to EUR 4,150 (3,996) million in particular in the property lines compared with the previous year. Furthermore, the run-off profit decreased to EUR 274 (553) million. In addition to a run-off loss in the engineering insurance line, the previous year was characterised by higher run-off profits in the liability insurance line. The gross loss ratio climbed by 4.8 percentage points to 84.8% (80.0%).

Contrary to expectations, net expenses for insurance claims increased by EUR 98 million to EUR 1,999 (1,901) million as a result of higher claims expenses on a gross basis. The net loss ratio rose by 1.7 percentage points to 89.9% (88.2%).

Gross expenses for insurance operations increased by EUR 24 million to EUR 901 (877) million; however, the expense ratio improved to 19.7% (20.4%) compared with the previous year and thus exceeded the expectations. While an increase of EUR 30 million in commissions was recorded primarily due to premium growth in the international business, administrative costs fell by EUR 6 million. The improved cost situation can be attributed primarily to lower project costs and lower expenses from pensions. On a net basis, the expense ratio fell to 23.7% (24.4%) as a result of the aforementioned effects as well as the higher quota share cessions. The combined ratios reflected the development described above, amounting to 104.5% (100.4%) on a gross and to 113.6% (112.6%) on a net basis.

After withdrawing EUR 12 million from the equalisation reserve (with an allocation of EUR 132 million in the previous year), the underwriting result was lower than expected at EUR -290 (-411) million due to significant major losses.

Direct written insurance business

Liability Insurance

	2018	2018	2017	2017
EUR million	Gross	Net	Gross	Net
Premiums	976	562	923	500
Premiums earned	959	528	915	505
Expenses for insurance claims	690	419	573	393
Expenses for insurance operations	177	103	167	91
Underwriting result for own account		-15		-12
In %				
Loss ratio	72.0	79.3	62.6	77.9
Expense ratio	18.4	19.5	18.3	18.1
Combined ratio	90.4	98.8	80.9	96.0

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 were successfully increased in the financial year by a total of EUR 53 million to EUR 976 (923) million. The reason for the increase is growth in the international business. Net earned premiums rose by EUR 23 million to EUR 528 (505) million.

Gross expenses for claims incurred climbed significantly by EUR 117 million to EUR 690 (573) million. This increase can be attributed primarily to a lower run-off result. Whereas a run-off profit of EUR 149 million was realised in the previous year, there was a slight run-off loss of EUR 1 million in the financial year. The claims expenses for the financial year increased to EUR 689 (722) million.

Net expenses for insurance claims rose by EUR 26 million to EUR 419 (393) million. The reason for this was in particular the run-off result, which decreased by EUR 52 million on a net basis. In contrast, claims expenses developed positively for the financial year, decreasing by EUR 26 million to EUR 403 (429) million. The net loss ratio rose slightly by 1.4 percentage points and was at 79.3% (77.9%).

Expenses for insurance operations amounted to EUR 177 (167) million on a gross basis and EUR 103 (91) million on a net basis. The expense ratio increased slightly by 0.1 percentage points on a gross basis to 18.4% (18.3%). Due to lower reinsurance commissions, the net expense ratio increased to 19.5% (18.1%).

The combined ratio reflects the developments described above and was equal to 90.4% (80.9%) for the gross ratio and 98.8% (96.0%) for the net ratio.

After allocating EUR 22 (33) million to the equalisation reserve, the liability insurance line shows a net underwriting loss of EUR -15 (-12) million.

Fire insurance

	2018	2018	2017	2017
EUR million	**Gross**	**Net**	Gross	Net
Premiums	210	88	194	87
Premiums earned	209	89	189	83
Expenses for insurance claims	269	116	116	49
Expenses for insurance operations	42	24	41	23
Underwriting result for own account		-41		-27
In %				
Loss ratio	128.8	129.9	61.5	58.9
Expense ratio	20.1	27.5	21.6	27.4
Combined ratio	148.9	157.4	83.1	86.3

Gross premium income from industrial fire and fire business interruption insurance increased in the financial year to EUR 210 (194) million. The increase in premiums can be attributed mainly to the restructuring activities carried out for the business in Germany during the financial year. Net premiums earned increased by EUR 6 million analogous to the increase in premiums on a gross basis and amounted to EUR 89 (83) million.

Gross expenses on insurance claims climbed EUR 153 million to EUR 269 (116) million. Claims expenses for the financial year rose by a total of EUR 135 million to EUR 301 (166) million due to some major losses in the industrial fire insurance line. The declining run-off result is characterised by developments in the fire business interruption insurance line. As a result, the run-off profit fell by a total of EUR 32 (50) million. The gross loss ratio increased accordingly by 67.3 percentage points to 128.8% (61.5%).

Net expenses for insurance claims increased analogous to insurance claims on a gross basis, rising by EUR 67 million to EUR 116 (49) million. The net loss ratio rose accordingly by 71.0 percentage points to 129.9% (58.9%).

At EUR 42 (41) million, gross expenses for insurance operations were at the previous year's level. The gross expense ratio fell to 20.1% (21.6%); in contrast, the net expense ratio rose by 0.1 percentage points to 27.5% (27.4%). The combined ratio reflected the development described above, increasing to 148.9% (83.1%) on a gross and to 157.4% (86.3%) on a net basis.

After a withdrawal of EUR 17 million from the equalisation reserve (compared with an allocation of EUR 28 million to the equalisation reserve in the previous year), the overall underwriting result for the financial year was EUR -41 (-27) million.

Motor insurance

	2018	2018	2017	2017
EUR million	**Gross**	**Net**	Gross	Net
Premiums	461	438	436	418
Premiums earned	459	436	421	405
Expenses for insurance claims	376	363	349	340
Expenses for insurance operations	78	73	77	74
Underwriting result for own account		-16		-17
In %				
Loss ratio	81.8	83.3	82.9	84.1
Expense ratio	16.9	16.9	18.4	18.4
Combined ratio	98.7	100.2	101.3	102.5

Premium growth from the previous year continued in 2018. Gross written premiums in the motor insurance line increased to EUR 461 (436) million in the financial year primarily as a result of successes in new business. The majority of this growth was achieved in the foreign branches, where written premiums increased by EUR 22 million to EUR 104 (82) million. In Germany, growth of EUR 3 million to EUR 357 (354) million was realised. Due to different policy renewal dates in new business, also for the previous year, gross premiums earned grew more robustly to EUR 459 (421) million.

Net premiums earned increased analogous to premiums earned on a gross basis by EUR 31 million to EUR 436 (405) million.

Gross expenses on insurance claims increased by EUR 27 million and were equal to EUR 376 (349) million. The larger portfolio in the financial year was essential for the development, which was also reflected in claims expenses for the financial year that increased significantly by EUR 32 million to EUR 414 (382) million. The run-off result increased year-on-year by EUR 5 million to EUR 38 (33) million. The gross loss ratio of 81.8% (82.9%) was lower than in the previous year.

Parallel to the development on a gross basis, net expenses for insurance claims rose to EUR 363 (340) million. The net loss ratio fell to 83.3% (84.1%).

Gross expenses for insurance operations rose only slightly and were equal to EUR 78 (77) million, whereby the growth-driven increase in commission expenses was almost entirely offset by lower administrative costs. The gross expense ratio thus decreased to 16.9% (18.4%). The net expense ratio was likewise 16.9% (18.4%). The combined ratio reflected the aforementioned developments, declining to 98.7% (101.3%) on a gross basis and to 100.2% (102.5%) on a net basis.

After allocating EUR 15 (7) million to the equalisation reserve, the overall underwriting result for the financial year was a net loss of EUR -16 (-17) million.

Marine and aviation insurance

EUR million	2018 Gross	2018 Net	2017 Gross	2017 Net
Premiums	326	231	305	221
Premiums earned	324	231	309	226
Expenses for insurance claims	215	160	198	163
Expenses for insurance operations	78	67	75	65
Underwriting result for own account		-2		-23
In %				
Loss ratio	66.4	69.2	64.0	71.9
Expense ratio	23.9	29.1	24.3	28.9
Combined ratio	90.3	98.3	88.3	100.8

Gross written premiums for marine and aviation insurance increased to EUR 326 (305) million in the financial year. The marine line posted a clear increase in premiums in the reporting period, which was realised in Germany thanks to the expansion in lead business and in travel insurance. Internationally, the premium trend was characterised by growth in the small-scale business of a European branch. The aviation line posted a decrease in premiums, which as in the previous year can be attributed to the exit from the airline business.

Gross expenses for claims incurred rose overall by EUR 17 million to EUR 215 (198) million. Gross expenses in the aviation insurance line were reduced as a result of a financial year that went very well. The run-off result contributed to the positive performance in the aviation Insurance Line with a profit of EUR 4 (9) million.

Gross loss expenses in the marine insurance line rose by EUR 12 million to EUR 211 (199) million. This was caused by an increase of EUR 263 (232) million in claims expenses for the financial year, which was attributable to a higher burden of claims in European foreign countries. An improvement was seen in the run-off result of EUR 53 (33) million, which was characterised by the trend in Germany. The gross loss ratio climbed by a a total of 2.4 percentage points to 66.4% (64.0%).

Net expenses on insurance claims declined by EUR 3 million to EUR 160 (163) million. In the marine insurance line, the increase in claims expenses for the financial year and the improvement in the run-off result followed the gross trend. In the aviation line, a net rate of 100% was agreed for the financial year. Net expenses for insurance claims decreased by EUR 6 million to EUR -3 (3) million thanks to a positive run-off result. The net loss ratio fell overall to 69.2% (71.9%) due to the positive loss trend.

Gross expenses for insurance operations for the financial year just ended grew to EUR 78 (75) million. The expense ratios fell on a gross basis to 23.9% (24.3%), but in contrast rose slightly on a net basis to 29.1% (28.9%). The combined ratios reflected the developments described above and rose to 90.3% (88.3%) for the gross ratio and fell to 98.3% (100.8%) for the net ratio.

After allocating EUR 4 (21) million from the equalisation reserve, the net underwriting result for the financial year was EUR -2 (-23) million.

Engineering insurance

	2018	2018	2017	2017
EUR million	**Gross**	**Net**	Gross	Net
Premiums	308	160	282	151
Premiums earned	297	153	274	144
Expenses for insurance claims	255	124	191	91
Expenses for insurance operations	73	35	66	32
Underwriting result for own account		-6		20
In %				
Loss ratio	85.9	81.4	69.8	63.6
Expense ratio	24.5	23.0	23.9	21.9
Combined ratio	110.4	104.4	93.7	85.5

The engineering insurance lines encompass insurance for machinery, installation, construction services, existing buildings', 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 308 (282) million. Premium growth was recorded both internationally as well as in Germany. Net premiums earned amounted to EUR 153 (144) million.

Gross expenses on insurance claims for the financial year rose by EUR 64 million to EUR 255 (191) million. Claims expenses for the financial year increased by EUR 20 million to EUR 237 (217) million, driven by a major loss event in the existing buildings and business interruption insurance lines. In the same period, the run-off result fell by EUR 44 million to a run-off loss of EUR 18 million (after a run-off profit of EUR 26 million in the previous year). This run-off loss can be attributed to an increase in claims incurred but not yet reported in the construction services insurance line. The gross loss ratio climbed by 16.1 percentage points to 85.9% (69.8%).

Net expenses on insurance claims increased to EUR 124 (91) million based on the gross trend, resulting in a 17.8 percentage point increase in the net loss ratio to 81.4% (63.6%).

Expenses for insurance operations rose to EUR 73 (66) million on a gross basis and to EUR 35 (32) million on a net basis.

Due to an increase in commission expenses, resulting in particular in foreign branch offices, the cost ratio increased to 24.5% (23.9%) on a gross basis and to 23.0% (21.9%) on a net basis. The combined ratios reflected the developments described above and were equal to 110.4% (93.7%) for the gross ratio and 104.4% (85.5%) for the net ratio.

Due to the higher claims expenses, an underwriting loss of EUR 6 million (after a profit of EUR 20 million in the previous year) remained for the engineering insurance line in the financial year.

Casualty insurance

	2018	2018	2017	2017
EUR million	**Gross**	**Net**	Gross	Net
Premiums	144	105	137	108
Premiums earned	143	105	134	105
Expenses for insurance claims	95	90	85	71
Expenses for insurance operations	31	25	30	26
Underwriting result for own account		5		6
In %				
Loss ratio	66.2	85.7	63.6	67.6
Expense ratio	21.9	23.5	22.7	24.4
Combined ratio	88.1	109.2	86.3	92.0

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 7 million to EUR 144 (137) million. This positive development was observed primarily in foreign markets. Among other things, growth in the area of sports insurance was realised here. Net premiums earned remained constant due to the reinsurance structure and amounted to EUR 105 (105) million.

Gross expenses on insurance claims rose to EUR 95 (85) million. An increased need for retroactive appropriations to reserves arose for international losses. The associated higher expense of EUR 21 million was only partially offset by claims expenses in Germany, which fell considerably by EUR 11 million. Overall, the gross loss ratio rose by 2.6 percentage points to 66.2% (63.6%).

Similar to the trend on a gross basis, the crucial factor for the claims trend on a net basis was the retroactive appropriation to reserves for insurance claims in the international business exhibiting a lower level of recovery. Net expenses for insurance claims therefore rose to EUR 90 (71) million and the net loss ratio increased by EUR 18.1 percentage points to 85.7% (67.6%).

Expenses for insurance operations increased to EUR 31 (30) million on a gross basis, whereas they decreased to EUR 25 (26) million on a net basis. Both the gross expense ratio of 21.9% (22.7%) as well as the net expense ratio of 23.5% (24.4%) were below the previous year's level. The combined ratio reflected the development described above, increasing to 88.1% (86.3%) on a gross and to 109.2% (92.0%) on a net basis.

An underwriting profit of EUR 5 (6) million remained for the financial year after a withdrawal from the equalisation reserve in the amount of EUR 19 million (with an addition of EUR -1 million in the previous year).

All-risk insurance

	2018	2018	2017	2017
EUR million	Gross	Net	Gross	Net
Premiums	590	152	544	142
Premiums earned	578	149	532	136
Expenses for insurance claims	726	261	355	176
Expenses for insurance operations	89	37	93	42
Underwriting result for own account		-148		-86
In %				
Loss ratio	125.6	175.3	66.7	129.5
Expense ratio	15.3	24.6	17.4	30.7
Combined ratio	140.9	199.9	84.1	160.2

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 46 million to EUR 590 (544) million. This development can be attributed mainly to restructuring activities. Net earned premiums rose by EUR 13 million to EUR 149 (136) million.

Gross expenses on insurance claims for the financial year rose by EUR 371 million to EUR 726 (355) million. The crucial factor was several major losses that led to higher claims expenses of EUR 773 (438) million for the financial year. Run-off profit fell by a total of EUR 47 (83) million, driven by lower run-off profits for some European branches. These developments increased the gross loss ratio by 58.9 percentage points to 125.6% (66.7%).

Net expenses for insurance claims rose by EUR 85 million to EUR 261 (176) million and were driven primarily by the increase in net claims expenses of EUR 102 million for the financial year. The net loss ratio increased accordingly by 45.8 percentage points to 175.3% (129.5%).

Expenses for insurance operations decreased in the financial year to EUR 89 (93) million on a gross basis and to EUR 37 (42) million on a net basis. The expense ratios fell on a gross basis to 15.3% (17.4%) and decreased to 24.6% (30.7%) on a net basis. The combined ratios reflected the developments described above and were recorded as 140.9% (84.1%) for the gross ratio and 199.9% (160.2%) for the net ratio.

In total, an overall underwriting result of EUR -148 (-86) million was reported for the all-risk insurance line.

Other insurance

	2018	2018	2017	2017
EUR million	**Gross**	**Net**	Gross	Net
Premiums	188	76	171	95
Premiums earned	187	78	168	94
Expenses for insurance claims	122	65	107	59
Expenses for insurance operations	46	23	46	29
Underwriting result for own account		2		1
In %				
Loss ratio	65.3	83.1	63.5	62.3
Expense ratio	24.9	29.6	27.3	30.7
Combined ratio	90.2	112.7	90.8	93.0

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, crisis management and cyber classes that 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 188 (171) million. A positive premium trend was observed in particular in the cyber insurance and extended coverage classes. Net premiums earned dropped to EUR 78 (94) million. The crucial factor for this decrease was a modified reinsurance structure in the legal protection insurance class. The business was ceded in its entirety to HDI Reinsurance SE (formerly Talanx Reinsurance SE), Ireland.

Gross expenses on insurance claims climbed by a total of EUR 15 million to EUR 122 (107) million. Claims expenses for the financial year, which increased by around 26% to EUR 140 (111) million, are responsible for this. The run-off result increased significantly year-on-year to EUR 18 (4) million. The improvement can be attributed to a positive result in the Extended Coverage (EC) insurance classes. The gross loss ratio rose by a total of 1.8 percentage points and was at 65.3% (63.5%).

Net expenses for insurance claims increased less than gross expenses to EUR 65 (59) million. The net loss ratio rose to a total of 83.1% (62.3%).

At EUR 46 million, gross expenses for insurance operations remain the same as in the previous year. The gross expense ratio decreased to 24.9% (27.3%) due to the increase in premiums earned. Net expenses for insurance operations fell by EUR 6 million to EUR 23 (29) million. The net expense ratio fell to 29.6% (30.7%) on a net basis. The combined ratios reflected the developments described above and were equal to 90.2% (90.8%) for the gross ratio and 112.7% (93.0%) for the net ratio.

An overall underwriting result of EUR 2 (1) million was recorded in the other insurance classes after a withdrawal in the amount of EUR 11 million from the equalisation reserve (with an addition of EUR 7 million in the previous year).

Business accepted for reinsurance

Total

	2018	2018	2017	2017
EUR million	**Gross**	**Net**	Gross	Net
Premiums	1,413	443	1,410	481
Premiums earned	1,417	454	1,358	459
Expenses for insurance claims	1,129	402	1,467	559
Expenses for insurance operations	287	140	281	145
Underwriting result for own account		-68		-271
In %				
Loss ratio	79.7	88.4	108.0	121.8
Expense ratio	20.3	30.8	20.7	31.7
Combined ratio	100.0	119.2	128.7	153.5

The 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.

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 1,413 (1,410) million. The major part of this total, or EUR 761 (685) million, was attributable to the all-risk insurance line (including business interruption), followed by liability at EUR 336 (373) million and engineering insurance lines at EUR 139 (174) million. The merely slight increase in premiums in the business accepted for reinsurance is due to the reorientation of the US-based subsidiary’s business model, which provides for a sharper strategic focus on underwriting of retained local industrial insurance risks. As a result, the volume of premiums ceded to HDI Global SE was lower. At EUR 454 (459) million, net premiums earned were slightly lower than in the previous year.

Gross expenses on insurance claims for the financial year declined significantly by EUR 338 million to EUR 1,129 (1,467) million. In the previous year, the result was negatively impacted by the high burden of claims from natural disasters and individual claims in the all-risk insurance line. The gross loss ratio fell considerably by 28.3 percentage points to 79.7% (108.0%) as a consequence of the lower burden of claims.

Net expenses for insurance claims fell by EUR 157 million and amounted to EUR 402 (559) million as a result of the lower burden of claims on a gross basis. The net loss ratio was 88.4% (121.8%).

Expenses for insurance operations rose by EUR 6 million to EUR 287 (281) million on a gross basis as a result of higher commissions paid for some international business. At 20.3% (20.7%), the gross expense ratio was slightly lower than in the previous year due to the increase in premiums. Net expenses were equal to EUR 140 (145) million. The net expense ratio fell by 0.9 percentage points to 30.8% (31.7%). The combined ratios reflected the developments described above and were equal to 100.0% (128.7%) for the gross ratio and 119.2% (153.5%) for the net ratio.

In total, the business accepted for reinsurance showed a net underwriting result of EUR -68 (-271) million. This includes a withdrawal from the equalisation reserve in the amount of EUR 6 million (with an addition of EUR 35 million in the previous year).

All-risk insurance

EUR million	2018 Gross	2018 Net	2017 Gross	2017 Net
Premiums	761	187	685	175
Premiums earned	726	184	661	166
Expenses for insurance claims	464	178	1,104	371
Expenses for insurance operations	132	47	125	49
Underwriting result for own account		-35		-249
In %				
Loss ratio	63.9	96.5	167.1	223.4
Expense ratio	18.1	25.7	19.0	29.7
Combined ratio	82.0	122.2	186.1	253.1

Liability insurance

EUR million	2018 Gross	2018 Net	2017 Gross	2017 Net
Premiums	336	129	373	149
Premiums earned	353	134	367	148
Expenses for insurance claims	292	96	181	89
Expenses for insurance operations	70	43	72	48
Underwriting result for own account		-12		-15
In %				
Loss ratio	82.9	71.1	49.4	60.3
Expense ratio	19.8	31.9	19.6	32.4
Combined ratio	102.7	103.0	69.0	92.7

Engineering insurance

EUR million	2018 Gross	2018 Net	2017 Gross	2017 Net
Premiums	139	44	174	61
Premiums earned	161	53	156	52
Expenses for insurance claims	292	72	122	50
Expenses for insurance operations	41	19	42	15
Underwriting result for own account		-33		-13
In %				
Loss ratio	181.1	136.4	78.4	96.8
Expense ratio	25.7	36.1	27.0	28.3
Combined ratio	206.8	172.5	105.4	125.1

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

EUR million, number	2018 Gross prem.	2018 Employees*	2017 Gross prem.	2017 Employees*
Germany, Hannover	2,444	1,814	2,410	1,814
France, Paris	414	130	361	118
The Netherlands, Rotterdam	317	260	287	273
United Kingdom, London	266	104	252	98
Belgium, Brussels	226	87	203	88
Switzerland, Zurich	207	97	214	100
Italy, Milan	148	80	137	74
Spain, Madrid	144	87	144	93
Australia, Sydney	103	53	89	48
Japan, Tokyo	69	29	62	27
Canada, Toronto	54	20	42	19
Denmark, Copenhagen	50	27	42	28
China, Hong Kong	45	27	71	28
Greece, Athens	45	23	27	20
Singapore	45	17	24	16
Bahrain, Manama	21	7	18	11
Ireland, Dublin	16	6	13	6
Malaysia, Labuan	2	0	2	0
Norway, Oslo	0	2	3	2
Total	4,616	2,870	4,401	2,863

**Active core employees as at the reporting date.*

Key processes in individual branches

After considerably expanding its regional presence in recent years with the opening of regional offices in various countries, HDI Global SE continued this strategy by opening a regional office in Perth, Australia, in May of the year just ended. With the office in Perth in addition to the offices in Melbourne and Brisbane, there are now three regional offices in Australia supporting the existing branch in Sydney with greater customer proximity.

A decision was made in the second half of the year to close the HDI Global SE branch in Manama, Bahrain, and accordingly to discontinue the active underwriting of insurance business. The local run-off activities are scheduled to be wrapped up in the coming year.

Significant changes in the gross premiums of individual branches
Gross premiums in the French branch increased by EUR 53 million to EUR 414 (361) million. The French branch posted premium growth in the all-risk insurance line from existing customer relationships. In addition, the branch benefited from the acquisition of a major customer in the engineering insurance line as well as by an expansion of the portfolio in motor insurance.

Gross premiums in the Dutch branch increased by EUR 30 million to EUR 317 (287) million. In the engineering insurance and motor insurance lines, premiums increased in connection with portfolio expansions. As a result of the portfolio transfer from HDI-Gerling Verzekeringen N.V. carried out the previous year, there was an additional increase in premiums in the marine insurance line.

According to the general business strategy, additional branches could significantly expand their portfolio by means of new acquisitions in their respective markets. This relates in particular to the branches in Australia, Greece, Canada and Singapore.

In the Hong Kong branch, a strategic reorientation in the Chinese market led to a reduction of the gross premiums to EUR 45 (71) million in the portfolio.

The Norwegian branch has been in liquidation since 2017; accordingly, no further gross premiums were underwritten in 2018.

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 297 (266) million. This compares to current-year expenses in the amount of EUR 19 (15) million. The current result amounted to EUR 278 (251) million. The sustained, low interest rate level in the eurozone led to further decreases in income from fixed-income securities, which were offset primarily by one-off effects in the real estate portfolio, since portfolio optimisations could not offer adequate compensation taking an appropriate amount of risk into account. Net income from real estate and other investments exceeded the previous year's result in financial year 2018 also due to the aforementioned one-off effects. 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 4.1% (3.8%).

Net realised gains on the disposal of investments for the year under review were equal to EUR 60 (30) million. The profits in the amount of EUR 61 (32) million were offset by losses from the disposal of fixed-income securities in the amount of EUR 1 (2) million.

The cumulative balance of write-downs and reversals thereof amounts to EUR -69 (-13) million.

Overall, an extraordinary result in the amount of EUR -9 (17) million contributed to the decrease in net income (increase in net income).

The balance sheet result from investments amounted to a total of EUR 269 (268) million and therefore exceeded the expectations. The total net return** for the reporting period reached 3.9% (4.0%).

** Ongoing gross income less expenses for the management of investments less amortisation in relation to the average portfolio of investments as at 1 January and 31 December of the respective financial year.*
*** All income less all expenses for investments in relation to the average portfolio of investments as at 1 January and 31 December of the respective financial year.*

Other income/other expenses

The other comprehensive income in the financial year was EUR -64 (-23) million. The reason for the change was primarily a one-off effect in the previous year resulting from the balance clarification, among other things, with reinsurers (EUR +37 million in the previous year). With respect to expenses, valuation allowances on receivables, among other things, have decreased by EUR 24 million to EUR 6 million, while interest allocated to pension provisions has increased to EUR 35 (27) million. The net balance of exchange rate gains and losses for the financial year was a net loss of EUR -6 (a net gain of 1) million.

Extraordinary result

The extraordinary result was attributable in the previous year (EUR -3 million) primarily to the full funding of the pension provisions due to the German Accounting Law Modernization Act (BilMoG).

Comprehensive income of HDI Global SE

	2018	2017
EUR million		
Underwriting result for own account	-290	-411
Total investment income (incl. underwriting interest income)	268	267
Result from other income/other expenses	-64	-23
Result from ordinary activities	**-86**	**-167**
Extraordinary result	0	-3
Taxes	32	34
Loss (-) transferred to Talanx AG	**-118**	**-204**

Contrary to expectations, it was necessary for HDI Global SE's parent company Talanx AG to assume its losses in the amount of EUR 118 (204) million in the financial year, in particular due to the burden from major losses incurred.

Net assets and financial position

Investments

The volume of investments (excluding deposits retained) of HDI Global SE at the end of the year amounted to EUR 7,060 (6,576) million and therefore exceeded the previous year's level.

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 4,105 (3,547) million at the end of the year, which corresponded to a share of 58.1% (53.9%) of the total investments. Additional significant investment categories included bond funds at 17.0% (18.1%) as well as participations and investments in affiliated companies at 17.1% (17.7%). Investments in fixed-income securities included in particular bearer bonds with good credit ratings. The quality of the fixed-income securities remained at the solid level strived for with an average rating of A (A) compared with the prior year. The portfolio of bond funds was increased to EUR 1,199 (1,191) million through the reinvestment of a distribution from the special bond fund EuroRent 3.

The real estate portfolio increased by EUR 10 million to EUR 176 (166) million. This also includes the sale of three properties located in Hannover. However, these disposables were more than offset by the purchase of new properties.

The carrying amounts of investments in affiliated companies and long-term equity investments increased in the reporting period and amounted to EUR 1,204 (1,162) million at the end of the year. The carrying amounts of the investees HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne, and HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne, increased by a total of EUR 37 million to EUR 652 (615) 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 also represent a focus of the investments, are managed in particular over these companies. In addition to this development of the investment fund vehicle, investments were also made, in particular in the Company's foreign units.

The fixed-term deposit portfolio was reduced by EUR 81 million to EUR 69 (150) million at the end of the year.

The currency effect resulting from the translation of the portfolios maintained in foreign currencies on 1 January of the financial year led to an increase of the investment portfolio by EUR 32 million (a reduction of EUR 158 million in the previous year). In addition, the portfolio changed by EUR +9 (-5) 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 7,466 (7,160) 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 subordinated liabilities relate solely to subordinated loans that specify 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 480 million to EUR 6,850 (6,370) million. This line item primarily includes provisions for unsettled insurance claims in the amount of EUR 5,564 (5,103) million.

HDI Global SE operates on an international scale and therefore recognises underwriting liabilities in foreign currencies. The currency effect resulting from the translation of the investment portfolios maintained in foreign currencies on 1 January of the financial year at the rate prevailing on the reporting date led to an increase of EUR 79 million in loss provisions (prior year: decrease of EUR 270 million).

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.

Overall assessment of the economic position

HDI Global SE considers the business trend in the year under review to be unsatisfactory, also in view of the environment. The underwriting result was burdened primarily by major losses in Germany and in foreign markets that significantly exceeded the expectations. The restructuring activities in the property insurance line already begun in the previous year were further intensified and should have a positive effect on premium growth and the result of operations. In contrast, net investment income made a positive contribution to net income despite the sustained phase of low interest rates. Nevertheless, the business performance can be considered unsatisfactory on the whole as a result of the unusually high burden of major losses. HDI Global SE’s economic position remained unchanged at the time in which the management report was prepared.

Personnel and social report

Overview

The goal of personnel management at HDI Global SE is to ensure sustainable, profitable growth for the Company. This is achieved with the right employees at the right location carrying out the right tasks with the proper support. The HR activities are centred on the principles of value-based management and a culture of cohesion. Effective and efficient personnel processes and services are needed in the competition for the most-talented employees of the future and the challenges of demographic change. Human resources, personnel marketing, initial vocational training and personnel development are key elements of the group-wide personnel management. The employees of HDI Global SE are distinguished by a high level of professionalism, above-average commitment, creativity, flexibility and values, but also increasingly by a high degree of agility, in particular with respect to the topic of digitalisation.

Company employee training

HDI Global SE has conducted trainee programmes for the past several years 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.

In order to locate and identify 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 as insurance and finance specialists (Kaufleute für Versicherungen und Finanzen) (back office) or as part of a Dual Studies programme for Insurance/Management/Actuarial Studies (B.A. Versicherungswirtschaft) or a Bachelor of Science with a specialisation in Business Information Systems (B.Sc. Wirtschaftsinformatik).

Personnel marketing

The core tasks of personnel marketing are to increase HDI Global SE's attractiveness as an employer and its level of recognition as well as to provide support in the recruiting of well-suited, high-quality candidates of the defined target groups. In addition to legal scholars and economists, this also includes people with knowledge in MINT fields, i.e. mathematics, informatics, natural sciences, or technology. The departments can come into contact with potential candidates, among other things, at events, job fairs or through collaborations with selected universities.

Personnel development

Employees of HDI Global SE and of the entire Talanx 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.

Since 23 February 2018, all employees active in sales are legally obligated to verify 15 hours of further education per year. Thus, the sales employees participate in particular in sales seminars covering technical insurance and behavioural issues.

Personnel deployment

The mobility of the employees remained very important also 2018. During long-term deployments, the Company's specialists and managers make an important contribution to expanding global business by undertaking key tasks in foreign markets. In addition, 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 and obtain new skills and experience.

International projects for the strategic further development of HDI Global SE enable 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.

Remuneration

HDI Global SE offers its employees attractive remuneration models. 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 amount of variable remuneration is determined by the achievement of personal goals as well as goals set by the Talanx Group and the division. Special payments, which will be made more flexible in the future, are granted to non-executive employees as an incentive for exceptional performance. Beginning with financial year 2018, so-called Spot-on Awards will be awarded and paid out quarterly over the course of the year.

Key employee indicators
In the reporting year, the annual headcount for HDI Global SE was 2,878 (2,871) employees. The average age of the employees was 45.1 (44.7) years, while the length of service was 16.3 (16.1) years. The part-time employment ratio was 15.4% (14.7%).

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 success of the Company. The Board would also like to thank all social partners for their constructive collaboration.

Non-financial statement

HDI Global SE is exempted under section 289b(2) of the German Commercial Code (Handelsgesetzbuch; HGB) from the obligation to include a non-financial statement in the management report, because it is included in the non-financial group statement of the parent company Talanx AG. The non-financial group statement for the Talanx Group is prepared based on section 315b(1) HGB in compliance with Directive 2013/34/EU und is published as a part of the group management report in the annual report on the parent company's website *https://www.talanx.com/investor-relations/finanzberichte/talanx-group.aspx?sc_lang=en.*

Corporate governance declaration pursuant to section 289f(4) sentence 1 in conjunction with paragraph (2) no. 4 of the German Commercial Code (HGB)

In accordance with section 111(5) of the German Stock Corporation Act (Aktiengesetz; AktG), the Supervisory Board of HDI Global SE in March 2017 specified an unchanged target of 16.7% for the proportion of women on the Company's Supervisory Board and a new target of 14.3% for the Board of Management. 30 June 2022 was stipulated as the deadline for reaching these targets.

Furthermore, in accordance with section 76(4) AktG, the Board of Management in April 2017 resolved a target of 15.0% for both the first and second management levels for the same period.

The paragraphs entitled "Non-financial statement" and "Corporate governance declaration pursuant to section 289f (4) sentence 1 in conjunction with paragraph (2) no. 4 of the German Commercial Code (HGB)" are expressly exempted under section 317(2) sentence 6 and/or sentence 4 HGB from being examined in connection with the audit of the annual financial statements and/or of the management report.

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 that defines and delimits the tasks, 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 risks
Underwriting risks derive primarily from the premium/loss risk and the reserving risk.

In the property/casualty insurance line 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. The level of reserves is regularly reviewed on a period-by-period basis and the run-off results are monitored in order to lower this risk. In addition, a provision (Spätschadenrückstellung) is recognised for losses presumed to have occurred but not yet reported.

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	
2018	89.9
2017	88.2
2016	77.9
2015	79.1
2014	83.3
2013	85.7
2012	79.3
2011	97.2
2010	75.2
2009	79.5

HDI Global SE seeks, in particular, to mitigate the potential effect of a simultaneous occurrence of natural disasters and accumulation losses arising from 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 result of the initial loss provision in %	
2018	5.0
2017	6.3
2016	5.6
2015	9.0
2014	11.4
2013	10.7
2012	7.9
2011	7.7
2010	7.7
2009	4.5

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 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 460.7 million. This represents 61.2% of gross receivables. Over the past three years, HDI Global SE was required to write-off an average of 0.9% (0.8%) 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	206.0	37.6
A	118.4	21.6
BBB	1.5	0.3
< BBB-	0.0	0.0
NON	221.5	40.5
of which captives	*33.1*	
Total	**547.4**	**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, in particular those under insurance agreements.

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 accordance with the Company’s internal guidelines.

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 supervisory provisions. 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 (EUR million)	
Portfolio	
Equities and other non-fixed interest securities	
Share prices -20%	-31.1
Fixed-interest securities and other loans	
Rise in yield +100 basis points	-244.8
Decline in yield -100 basis points	+252.2

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	1,167	40.4
Rating AA	680	23.5
Rating A	729	25.2
Rating BBB	302	10.5
Rating < BBB	11	0.4
Total	**2,889**	**100.0**
Registered bonds/ Promissory note loans		
Rating AAA	585	57.5
Rating AA	150	14.7
Rating A	158	15.5
Rating BBB	77	7.6
n. r.	48	4.7
Total	**1,018**	**100.0**
Fixed income funds		
Rating AAA	130	12.9
Rating AA	32	3.1
Rating A	232	23.0
Rating BBB	518	51.3
Rating < BBB	98	9.7
Total	**1,010**	**100.0**
Loans		
Rating AA	50	12.9
Rating A	141	36.4
Rating BBB	76	19.7
Rating < BBB	3	0.8
n. r.	117	30.2
Total	**387**	**100.0**
Total		
Rating AAA	1,882	35.5
Rating AA	912	17.2
Rating A	1,260	23.8
Rating BBB	973	18.3
Rating < BBB	112	2.1
n. r.	165	3.1
Total	**5,304**	**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.

The liquidity 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 risks
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 HDI Systeme AG (formerly: Talanx Systeme AG) under a service level agreement 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.

At the EU membership referendum on 23 June 2016, a majority of the voters voted for the exit of the United Kingdom from the EU (so-called Brexit). The exit negotiations between the UK and the EU remain tough, complex and uncertain with respect to their outcome. HDI Global SE is currently represented by a legally independent EU branch in the British market; the effects on the organisation of the local unit as well as on the business carried out by this unit continue to be reviewed as part of a project set up for this purpose against the backdrop of the final resolutions and regulations, which are still pending. With respect to potential Brexit scenarios, there are no material valuation risks identifiable with regard to the investments. However, significant fluctuations in prices in the individual market segments cannot be ruled out in connection with the Brexit. Such potential price fluctuations represent a heightened uncertainty that is currently not fully reflected in the risk models calibrated on historical time series.

In December 2017, comprehensive tax reform legislation was enacted in the USA, providing for new tax rules since January 2018 that also have a significant financial effect on the subsidiaries of HDI Global SE active in the USA. A crucial aspect of this tax reform is the introduction of a base erosion and anti-abuse tax (BEAT) provision. As a result, premiums for insurance risks ceded within the Group also flow into the measurement basis for tax purposes. The effects on the subsidiaries operating in the USA were reduced by means of various measures, for example increasing amounts retained and/or selecting external assignees.

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.

In addition, HDI Global SE also decided in 2017 to take further steps towards the certification of an internal model component for operational risk together with the Talanx Group. These steps will be based on surveys of experts. In addition to positive effects on capital requirements in the sense of effects that are more independent with respect to risk, opportunities are seen in particular in further improvements and efficiency considerations with respect to the identification and management of operational risks.

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. The Company will publish the specific ratios in April 2019 in the Solvency and Financial Condition Report (SFCR) for the year ended 31 December 2018.

Report on expected developments and on opportunities

Economic climate
For 2019, we expect the pace of global growth to slow down. While growth in emerging markets may remain relatively constant, we assume that growth in industrial nations will decrease. We consider the main driver to be, in particular, an external environment and investment climate burdened by political uncertainties – such as the protectionist US trade policy or the Brexit. A continuing positive global labour market trend, no economic exaggerations and stabilising counter-effects – such as the economic programmes in China and a less aggressive posture on the part of the US Federal Reserve – should, however, speak in favour of a moderate development.

After a decrease in the momentum of growth in 2018, signs in the eurozone point to stabilisation. The robust labour market – and thus income and consumption trend – is a central pillar of growth. Increasingly tight capacities and a continuing expansive monetary policy facilitate further investments. The gradually more expansive fiscal policy has an additional growth-stimulating effect, whereas in particular political risks – such as the Brexit, the development in Italy or the European parliamentary elections – represent factors of uncertainty.

In USA, the prior year's high rates of growth will likely weaken successively as a result of an extremely stimulative fiscal policy. Due to the increased significance of the oil sector, the considerable decrease in the price of oil is weighing on the investor outlook. Nevertheless, we consider the US economy to be robust and expect the recovery to continue in the year 2019, in particular due to a healthy labour market dynamic.

Emerging markets are benefiting from their largely cautious policies in recent years and will likely continue their development at a similar pace as in the year 2018 despite an external environment that has deteriorated worldwide. A slower normalisation of global monetary policies, moderate inflation rates and support by way of lower oil prices have the effect of stimulating growth. The structural slowdown in economic growth in China is weighed down further, among other things, by the smouldering trade conflict with the USA. However, the avoidance of weaker growth, which jeopardises political stability, is of the utmost priority in China. Therefore, similar to past experience, we expect rather aggressive fiscal and monetary policy countermeasures and thus a merely gradual weakening of growth.

The falling commodity prices should lead to a noticeable decrease in the rate of inflation in the first half of the year. Since available global production capacities are being increasingly utilised, core inflation, i.e. the rate of inflation excluding energy and food prices, will likely rise gradually. We expect a cautious normalisation of monetary policies around the world. The ECB could raise the interest rate for deposits in the second half of the year for the first time in eight years. However, the US Federal Reserve will likely proceed more slowly in 2019 due to its previous interest rate hikes and the decrease in the momentum of US growth.

Capital markets
The central bank policy and a normalisation of real interest rates speak in favour of higher capital market interest rates in the medium term. However, political uncertainties should slow or delay a normalisation of German Bund yields. The end the ECB's bond purchasing programme as well as special political topics are not yet fully factored into prices in the broad lending environment and leave room for market volatility and further spread increases.

The valuation level of European and American stock markets normalised appreciably in the year under review. The continuation of the global recovery – although less dynamic than before – remains in an uneasy balance with a high degree of political uncertainty. All in all, we see only limited upward potential for stock prices. In addition, the level of volatility will likely remain elevated due to political headlines and an increasing normalisation of global monetary policies.

International insurance markets
In international property and casualty insurance, we expect an overall increase in premium income for 2019 at the level of the year under review. We are basing our planning on an assumption that growth momentum will remain constant both for emerging markets as well as for the developed insurance markets. Profitability should remain stable in 2019, assuming that the positive effect of premium increases in the year under review was limited to regions with high prior-year claim expenditures and will subside.

For the developed European insurance markets, we expect slightly increasing premium income for 2019, whereas the trend in the USA is expected to decrease slightly. We expect likewise declining growth rates for 2019 in Central and Eastern Europe and in contrast increasing growth momentum as a result of the economic recovery for Latin America. In the developed insurance markets of Asia, premium growth should rise in the course of price increases. Growth should also weaken in China compared with the high level of the year under review.

German insurance industry
Despite the positive trend in the prior year, the macroeconomic environment continues to be characterised by economic risk factors. Assuming that the macroeconomic environment does not significantly deteriorate, the insurance industry should achieve a slightly increasing premium volume in 2019 compared to the prior year according to an assessment by the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft e.V.; GDV).

In property and casualty insurance, we anticipate further rising premium income in Germany for 2019. Premium growth should fluctuate around the level of the year under review.

HDI Global SE
For financial year 2019, we expect a considerable decrease in gross written premiums due to the contribution of the Specialty business to the newly established joint venture HDI Global Specialty SE, in which HDI Global SE will hold 50.2% of the interest. In foreign markets, the industrial business in particular in North and South America as well as in Southeast/East Asia will be further expanded. 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.

HDI Global SE expects a sharp decrease in the business accepted for reinsurance from the USA in the next year, which has been evident since 2018. As a result of the realignment of the US-based subsidiaries' business model, which provides for a stronger strategic focus on the underwriting of retained local industrial insurance risks, the volume of premiums ceded to HDI Global SE will decrease.

In claim processing we expect a significant improvement due to the normalisation of the major loss situation. Restructuring measures that have been tackled and in part already implemented will also be continued. The ongoing restructuring activities are being continued in particular in the all-risk, fire and marine insurance lines and are paving the way for additional earnings potential. Overall, we expect an appreciably lower gross loss ratio in the upcoming financial year.

The capacity for innovation and a focus on service is becoming increasingly important in the insurance industry. HDI Global SE is carrying out numerous projects in order to shape the digital transformation as well as to harmonise and optimise the process and IT landscape worldwide. As a result of corresponding necessary capital expenditures, we do not expect a decrease, but stable costs. The aforementioned decrease in premiums and the associated reduction in commissions lead overall to a slight increase in the expense ratio on a gross basis.

As a result of the noticeably better claims experience, we expect clearly improved underwriting results overall on a gross basis, which will also lead to a clearly declining combined ratio on a net basis.

We are assuming that the distortions on the capital markets will continue, 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 a clearly declining net interest return and for net investment income to fall significantly short of the level of 2018. The persistent low interest rate environment also forces us to further improve underwriting.

Due to the aforementioned developments, we expect comprehensive income to be more positive overall for HDI Global SE compared with 2018, which can be attributed in particular to an improved claims experience.

Opportunities arising from changes in the framework conditions

Energy transition
Germany made the fundamental decision for its society to meet its energy requirements in the future primarily from renewable sources. At the federal level, the energy transition and climate protection are of great importance. The reorganisation of the energy system in favour of a regenerative provision of energy is to be further continued, whereby the focus will be simultaneously placed on halting the cost increase for the consumers. In addition to a further expansion of renewable sources of energy in a stable regulatory environment, energy efficiency is becoming increasingly important. Germans see the opportunity to strengthen their country as a place to do business through the reorganisation of the energy system, which can become an important provider of stimulus for innovation and technological progress. As an industrial insurer, HDI Global SE is actively supporting this transformation. Customers are offered tailored solutions for the development, sales and implementation of new energy technologies. In addition to renewable sources of energy, storage technologies, the expansion of the grid and the intelligent management of individual components (smart grid) will contribute decisively to the success of the energy transition. The energy transition is being sup-

ported with these investment activities in the energy sector. Building on the existing equity investments in energy grids and wind farms, future investments in the energy distribution and renewable energy segments can thereby be further expanded.

If the Company should benefit to a greater degree than currently expected from the sales opportunities due to the energy transition, premium growth and the results of operations could be positively impacted, as a result of which the forecasts could be exceeded.

Opportunities created by the Company

Digitalisation
Hardly any other development is changing the insurance industry as permanently as digitalisation. As a result of digitalisation, business processes and models are being fundamentally redesigned through the use of IT systems. This development is crucial in particular for the competitiveness of insurance companies giving rise to new possibilities in communication with the customers, the handling of insurance claims, the evaluation of data and the development of new fields of business. HDI Global SE is carrying out numerous projects in order to shape the digital transformation as well as to harmonise and optimise the process and IT landscape worldwide. With the one.BIZ programme already begun in 2015, HDI Global SE had already laid the important foundation for the optimisation of processes and for a uniform IT landscape in the past few years and brought the goals for the programme once again more closely in line with the corporate strategy. A sharper focus for the future orientation is placed on improving the underwriting results, transparent reporting and further optimising the processes. Thus, the one.BIZ programme continues to be a core pillar for the Company's growth path and will be further expanded in the next few years.

In addition, the Company is already using IT systems in order to offer tailor-made solutions to the customers and to be able to set premiums automatically in real time. Above all things, however, digitalisation affords the opportunity to benefit from economies of scale as a large internationally operating enterprise.

If the digitalisation projects should be implemented and adopted more quickly by the customers than currently expected, the premium trend and results of operations could be positively impacted, as a result of which the forecasts could be exceeded.

Agility
Changes in the globalised world in the information era are taking place at an increasingly fast pace. The world is characterised by volatility, uncertainty, complexity and ambiguity (VUCA). As an insurance company, in order to keep up with the speed of these changes, it is necessary for the Company to transform itself into an agile organisation. Being an agile organisation means being a learning organisation that focuses on the customers' utility in order to increase the Company's profits. For this reason, the Company is counting on interdisciplinary and creative teams, open and direct communication and flat hierarchies as well as practising the art of dealing with errors. The Company's transformation into an agile organisation is being supported by numerous initiatives. The workplace is designed so as to shorten paths of communication and promote interdepartmental exchange. With the help of the Agility Campus organised by the Talanx Group, the employees become familiar with agile methods and are given the ability to develop new solutions independently. Daily stand-up meetings are conducted in the teams in order to improve the teams' self-management. Agility offers opportunities for customers, employees and investors. Customers can benefit from new insurance solutions that are tailored precisely to their needs. Employees have greater flexibility and scope for new ideas when they work agilely and can grow with new challenges. Finally, investors benefit from increasing corporate profits, when the customers are satisfied and the employees can take full advantage of their potential.

If the transformation into an agile organisation should be implemented more quickly than expected, the premium trend and results of operations could be positively impacted, as a result of which the forecasts could be exceeded.

Focusing on the core HDI brand
As a subsidiary of the Talanx Group, HDI Global SE has recourse to centralised core functions and its expertise. The focus on the core HDI brand in the Talanx Group is intended to implement both a stronger common identity within the Group as well as a more persuasive appearance before the customers. For this purpose, a brand strategy project was initiated by the Talanx Group in 2018.

If the focus on the core HDI brand as part of the brand strategy of the Talanx Group should make a greater contribution than expected towards strengthening the HDI brand, premium growth and the results of operations could be positively impacted, as a result of which the forecasts could be exceeded.

Profitability
In addition, the Company sees opportunities in the profitability of certain lines. Therefore, the "20/20/20" programme was initiated in particular for the fire insurance line. This programme aims to realise a risk-free additional premium of at least 20 percent in the fire insurance line, which constitutes roughly 20 percent of the industrial

portfolio, and consequently to realise an underwriting gain again by the year 2020.

Should the restructuring of the fire insurance line make better progress than expected, premium growth and the combined ratio and therefore the results of operations could be positively impacted, as a result of which the forecasts could be exceeded.

Sales opportunities

Internet
As a result of the increasing digitalisation, cyber attacks over the Internet are leading more and more to massive losses at companies. In particular, hacker attacks that have come to light in the recent past show that manufacturing industrial enterprises in particular are not protected from the risks of cybercrime despite the best defence mechanisms. The focus is also being shifted increasingly to the responsibility of the top management. For this reason, HDI Global SE developed the product Cyber+ with which the various risks can be covered comprehensively in one insurance solution. HDI's holistic and integrated insurance protection covers on the one hand direct claims as a result of cybercrime while on the other hand securing third-party claims for which companies are liable to customers, service providers or other third parties. The responsibilities of the managing directors under civil and criminal laws can also be accommodated.

If the sales opportunities arising from the additional need to provide security from internet risks can be better utilised than currently expected, the premium trend and results of operations could be positively impacted, as a result of which the forecasts could be exceeded.

New markets and the bundling of business
Owing to the Group's decentral structure, individual entrepreneurial thinking and action can be developed, which leads to a focused observation of the customer markets. For example, the expansion of the international market for special risks was tackled through the establishment of HDI Global Specialty SE, a joint venture of HDI Global SE and Hannover Rück, Likewise, further market opportunities are seen through the opening of new branches and the expansion of the insurance business to local foreign markets.

If the sales opportunities arising from the development of new markets and the bundling of business can be better utilised than currently expected, the premium trend and results of operations could be positively impacted, as a result of which the forecasts could be exceeded.

Report on equality and equal pay

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 a multitude of cultures are united lies in the nature of the international business.

Women and men of all ages with a wide variety of national, ethnic and religious backgrounds as well as people with and without disabilities 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 on the action fields of demographics, gender and migration. Suitable measures for this include the active support of daycare after the return from parental leave, a strengthening of the cooperation of teams comprising a variety of ages as well as flexible working time models if possible.

HDI Global SE pledges to support equal opportunities and would like to further increase the number of women in managerial positions. As part of a mentoring programme, the development of talented women in higher specialist or management positions is supported. In order to prevent a lack of female managers, an effort is made to bring about a balanced level of diversity when hiring trainees.

In order to bolster the personal resources, the employees fall back on comprehensive prevention measures as part of holistic health management. For example, health days were held at the sites in Germany in 2018. The Employee Assistance Programme introduced in 2016 will be continued. The offer includes an anonymous and immediate consultation free of charge in the event of private, professional or psychological health concerns as well as a family service.

Equal pay

Remuneration is paid independent of gender. Employees who are remunerated based on the collective salary agreement for the private insurance industry receive a collectively agreed salary based on the relevant pay scale group. In addition, the pay of pay-scale and non-pay-scale employees is reviewed annually as part of a uniform process with the goal of avoiding any wage differences between women and men.

In accordance with section 21(2) of the Act to Promote the Transparency of Pay Structures (Entgelttransparenzgesetz; EntgTranspG), the following disclosures reflect the changes compared with the last report:

The average number of employees was 1,933 in the 2017 calendar year, of which 823 women and 1,110 men. Compared with the previous year, the share of female employees increased by 0.5%. The average number of full-time employees was 1,637, of which 563 women and 1,074 men. There is no percentage change for the previous year. The average number of part-time employees was 296, of which 261 women and 35 men. Compared with the previous year, the share of female part-time employees increased by 2.0%.

The Report on equality and equal pay is neither a component of the annual financial statements nor of the management report; as such, the corresponding provisions and thereby associated legal consequences in particular under the German Commercial Code (HGB) do not apply.

Scope of business operations

Branches

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

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

Products

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-risk property 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 terrorism risks as part of the business accepted for reinsurance.

Balance sheet as at 31 December 2018

Assets			**31.12.2018**	**31.12.2017**
EUR thousand				
A. Intangible fixed assets				
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets			13,513	21,272
B. Investments				
I. Land, land rights and buildings, including buildings on third-party land		175,740		165,767
II. Investments in affiliated companies and other equity investments		1,402,216		1,321,985
III. Other investments		5,482,023		5,088,228
IV. Deposits retained by ceding companies on busniess accepted for reinsurance		61,346		61,158
			7,121,325	**6,637,138**
C. Receivables				
I. Receivables arising from direct written insurance business, due from:				
1. Policy holders	394,022			417,021
2. Intermediaries	347,572			328,719
		741,594		**745,740**
II. Receivables on reinsurance business of which due to affiliated companies: EUR 75,803 (148,692) thousand		542,682		664,931
III. Other receivables of which due to affiliated companies: EUR 201,913 (277,363) thousand		596,820		680,951
			1,881,096	**2,091,622**
D. Other assets				
I. Tangible fixed assets and inventories		9,855		10,497
II. Cash at banks, cheques and cash-in-hand		373,723		444,137
			383,578	**454,634**
E. Accrued or deferred items				
I. Deferred rent and interest income		59,603		55,453
II. Other prepaid expenses		1,921		2,414
			61,524	**57,867**
F. Excess of plan assets over post-employment benefit liability			15	5,836
Total assets			**9,461,051**	**9,268,369**

Equity and liabilities			31.12.2018	31.12.2017
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	986,307			939,473
2. less: share for business ceded for reinsurance	469,547			456,023
		516,760		**483,450**
II. Provision for outstanding claims				
1. Gross amount	11,226,589			10,113,736
2. less: share for business ceded for reinsurance	5,662,745			5,010,762
		5,563,844		**5,102,974**
III. Provision for profit-related and non-profit-related premium refunds				
1. Gross amount	32,371			14,136
2. less: share for business ceded for reinsurance	18,183			3,994
		14,188		**10,142**
IV. Equalisation reserve and similar provisions		718,451		730,780
V. Other underwriting provisions				
1. Gross amount	46,216			46,831
2. less: share for business ceded for reinsurance	9,603			4,603
		36,613		**42,228**
			6,849,856	**6,369,574**
D. Other provisions				
I. Provisions for pensions and similar obligations		444,485		424,640
II. Provisions for taxes		49,381		29,645
III. Other provisions		66,500		72,834
			560,366	**527,119**
E. Deposits retained on reinsurance ceded			79,693	68,088
F. Other liabilities				
I. Liabilities from direct written insurance business due to:				
1. Policy holders	105,373			91,971
2. Intermediaries	128,668			230,592
		234,041		**322,563**
II. Payables on reinsurance business of which due to affiliated companies: EUR 96,869 (102,196) thousand		653,875		664,396
III. Liabilities to banks		-		32
IV. Other liabilities of which taxes: EUR 50,880 (75,189) thousand of which social security: EUR 1,298 (1,208) thousand of which due to affiliated companies: EUR 20,065 (248,122) thousand		474,203		694,191
			1,362,119	**1,681,182**
G. Deferred and accrued items			2,481	2,721
H. Deferred tax liabilities			-	13,149
Total equity and liabilities			**9,461,051**	**9,268,369**

The annuity provision recognised on the balance sheet as at the close of the 2018 financial year under equity and liabilities C.II. is equal to EUR 40,431,384. 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 section 341f and section 341g HGB as well as in compliance with the regulation issued based on section 88 (3) of the Insurance Supervision Act (*Versicherungsaufsichtsgesetz;* VAG).

Hannover, 15 February 2019 The Responsible Actuary Schmidt

Income statement for the period from 1 January to 31 December 2018

I. Underwriting account			**2018**	2017
EUR thousand				
1. Premiums earned for own account				
a) Gross written premiums	4,616,257			4,401,253
b) Premiums ceded to reinsurance	2,361,141			2,198,177
		2,255,116		**2,203,076**
c) Change to the gross premium reserve unearned	-43,381			-99,723
d) Adjustment of reinsurers' share in gross premiums unearned	-11,456			-53,464
		-31,925		**-46,259**
			2,223,191	**2,156,817**
2. Underwriting interest income for own account			350	308
3. Other underwriting income for own account			3,038	4,192
4. Expenses on insurance claims for own account				
a) Claims payments				
aa) Gross amount	2,853,854			3,047,951
bb) Reinsurers' share	1,272,993			1,508,084
		1,580,861		**1,539,867**
b) Changes to the provision for outstanding claims				
aa) Gross amount	1,022,051			394,738
bb) Reinsurers' share	603,603			33,269
		418,448		**361,469**
			1,999,309	**1,901,336**
5. Change to other net underwriting provisions			-6,184	1,457
6. Expenses for profit-related and non-profit related premium refunds for own account			8,478	3,193
7. Expenses for insurance operations for own account				
a) Gross expenses for insurance operations		900,619		876,743
b) less: commissions and profit commissions received for business ceded to reinsurance		372,737		349,737
			527,882	**527,006**
8. Other underwriting expenses for own account			-853	7,581
9. Subtotal			**-302,053**	**-279,256**
10. Changes to equalisation reserve and similar provisions			12,329	-131,842
11. Underwriting result for own account			**-289,724**	**-411,098**

II. Non-underwriting account			**2018**	**2017**
EUR thousand				
1. Investment income				
a) Income from long-term equity investments of which from affiliated companies: EUR 108,736 (52,437) thousand	120,425			58,958
b) Income from other investments of which from affiliated companies: EUR 4,219 (5,025) thousand				
ba) Income from land, land rights and buildings, including buildings on third-party land	15,891			13,576
bb) Income from other investments	140,346			171,040
c) Income from reversal of write-downs	456			269
d) Gains on disposal of investments	61,014			32,022
e) Income from profits received under profit pooling, profit-or-loss transfer, or partial profit transfer agreements	19,782			22,752
		357,914		**298,617**
2. Investment expenses				
a) Investment management expenses, interest expenses and other expenses related to capital investments	14,564			11,236
b) Write-downs of investments	73,696			17,724
c) Losses on disposal of investments	832			1,958
d) Cost of loss absorption	2			2
		89,094		**30,920**
		268,820		**267,697**
3. Underwriting interest income		350		308
			268,470	**267,389**
4. Other income		57,133		103,480
5. Other expenses		121,295		127,090
			-64,162	**-23,610**
6. Result from ordinary activities			**-85,416**	**-167,319**
7. Extraordinary expenses		10		2,806
8. Extraordinary result			**-10**	**-2,806**
9. Taxes on income		28,477		30,526
10. Other taxes		3,977		3,204
			32,454	**33,730**
11. Loss transfer		117,880		203,855
12. Net profit/loss for the year			**0**	**0**

Notes to the financial statements

General information

HDI Global SE is headquartered at HDI-Platz 1, 30659 Hannover, entered in the commercial register of the Local Court of Hannover (Amtsgericht Hannover) under HRB 60320.

The annual financial statements and the management report for the 2018 financial year were prepared in accordance with the regulations in the German Commercial Code (Handelsgesetzbuch; HGB), the German Stock Corporation Act (Aktiengesetz; AktG), the German Insurance Supervision Act (Versicherungsaufsichtsgesetz; VAG) and the Regulation on the Accounting of Insurance Undertakings (Verordnung über die Rechnungslegung von Versicherungsunternehmen; RechVersV) in the version applicable at the balance sheet date.

Accounting policies

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 accounted for at cost, less straight-line depreciation of buildings based on the typical useful life (section 341b(1) sentence 1 in conjunction with sections 255 and 253(3) HGB) and write-downs if the impairment is expected to be permanent (section 253(3) sentence 5 HGB).

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 was determined using this approach. As a general rule, current market values are determined by external experts every five years (section 55(3) of the Regulation on the Accounting of Insurance Undertakings (Versicherungsunternehmens-Rechnungslegungsverordnung; RechVersV)). The cost or the value assessed in a report compiled by an external, publicly certified expert was recognised for all land and buildings newly acquired as well as properties under construction.

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

Loans to affiliated companies and other long-term investees and investors were measured at amortised cost using the effective interest method in accordance with section 341c(3) HGB. Necessary write-downs were recognised based on the less strict lower-of-cost-or-market principle.

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. 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 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.

The fair values of loans to affiliated companies and to long-term investees and investors were determined by means of product and rating-specific yield curves using a net present value method. Special structures such as deposit protection, guaranty obligations, or subordination were taken into account with respect to the spread premiums applied.

Other investments
Provided that they are accounted for based on the priciples governing current assets, stocks, shares, or investment fund units and other variable-interest-bearing securities as well as bearer bonds and other fixed-interest securities were measured according to the strict lower-of-cost-or-market principle at cost or the lower fair value (section 341b(2) HGB in conjunction with sections 255(1) and 253(1) sentence 1 and paragraph (4) HGB). If these securities are intended to serve the business operations permanently, they were measured according to the less strict lower-of-cost-or-market principle (section 341b(2) HGB in conjunction with section 253(3) HGB). Permanent impairment was recognised in profit or loss.

For reasons of simplification, the premium for bearer bonds in fixed assets acquired above par was previously amortised on a straight-line basis over the maturity of the bond to the amount to be paid upon redemption. For bearer bonds in fixed assets acquired below par, the discount was previously not amortised during the term to maturity; instead, the income was recognised in the income statement upon maturity as a price gain. Since 1 January 2018, the Company has exercised its option to recognise discounts and premiums over the term to maturity using the effective interest method. This led to an improvement in the systematic approach. For the conversion of the discounts, a non-recurring effect in the amount of EUR 4.2 million was recognised as a price gain in ordinary net investment income, while the historical unwinding of the discount was reversed. The effects from the conversion of the premium are immaterial and therefore reversed prospectively.

The fair value for shares and stock funds accounted for as fixed assets was determined 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 exceeded 120% of fair market value, they were capped at 120%.

For the determination of fair value for special bond funds accounted for as fixed assets, the bonds were recognised at amortised cost. In the case of default securities and securities whose market value was less than 50% of the nominal value, the lower fair market value continued to be applied. For mixed funds accounted for as fixed assets, the fair value is determined separately for the individual components such as shares and bonds using the aforementioned methods. In addition to the earnings per share of the included shares and/or the calculated value of the included bonds, all other elements of the fund, such as liquid funds (cash and cash equivalents), interest accruals, receivables and liabilities factor into the fair value of the respective shares, bonds, and mixed funds.

As a general rule, derivatives were measured at cost or the lower fair value prevailing on the balance sheet date. As a exception to this rule, the market value of over-the-counter options with a notional value of EUR 18.1 (5.5) million was not determined, since an economic exercise of the option is not planned.

Options were valued separately. The costs represent the upper value limits. Provisions for impending losses were recognised in the event of negative fair values.

Foreign exchange futures are subject to a prohibition on recognition according to the so-called non-recognition principle for pending transactions. In case of a negative market value, provisions for impending losses from pending transactions would be recognised. There were no open forward exchange contracts as of 31 December 2018.

The fair value of other investments was generally determined on the basis of their open market value. For investments having a market or listed price, the market value was 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 no stock market quotations were available, yield-implied prices were used based on price formation methods established in financial markets. Investments were valued at maximum at their expected realisable value in accordance with the principle of prudence.

Registered bonds, notes receivable and loans as well as loans guaranteed by mortgages, land charges and annuity land charges were accounted for at amortised cost (section 341c HGB), whereby the investments were recognised upon acquisition at the purchase price or amount paid. The difference to the repayment amount was amortised using the effective interest method. Necessary write-downs were recognised based on the less strict lower-of-cost-or-market principle

The fair values of the registered bonds, notes receivable and loans were determined by means of product and rating-specific yield curves using a net present value method. 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 was 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. They are generally accounted for uniformly at amortised cost based on the provisions for investments accounted for as assets according to the less strict lower of cost or market principle (section 341b(1) sentence 2 HGB in conjunction with section 253(3) sentence 5 HGB).

In connection with the requirement to reverse write-downs (section 253(5) HGB), reversals of write-downs through profit or loss up to the amortised cost or to a lower fair market value if the reasons for permanent impairment no longer apply were recognised for assets that were written down in previous years.

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 and for the 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 adequate global valuation allowance.

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.

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 250 (150) are immediately recognised as operating expenses. Low-value items costing between EUR 250 (150) and EUR 800 (410) are capitalized and written off in the year of acquisition. Some inventory items are carried at a fixed value.

Cash at banks, cheques and cash-in-hand were 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
For the purposes of the timely preparation of the consolidated financial statements and the requisite punctual delivery of the single-entity financial statements, both written amounts as well as estimates were used as part of the fast-close process implemented in reinsurance. In the determination of the reinsurers' contractual shares in all gross basis items, a timing offset of one month was applied. Every reinsurance contract was individually calculated on the basis of gross data written for the first eleven months, and a simplified estimate of the shares for reinsurance was made 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 that represents an average reinsurance valuation and which facilitates an accelerated entry of the shares for reinsurance was applied to the shares thus calculated and to the entire German portfolio. 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. The provision for the indemnification of claims for losses in the financial year was measured globally in the maritime area for the investment and underwriting business based on past experience from prior years.

Corresponding provisions for claims incurred but not yet reported ("IBNR") were recognised for insurance claims that were not yet known at the balance sheet 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 provision for outstanding pension claims (annuity claims provision) calculated in accordance with section 65 VAG and the provision for anticipated adjustment expenses were recognised in addition. The provision for external claims adjustment expenses is comprised of external and internal costs. Whereas the provision for external claims adjustment expenses is recognised for specific insurance claims, the provision for internal claims adjustment expenses is determined using a factor-based approximation method. This method is based on actual claims payments made as a measure of volume for costs incurred and determines the future provision for internal claims adjustment expenses as a percentage share of the current provision for claims payments based on this relationship. The corresponding percentage rate/factor is determined as the average of historical observation years. Since it is assumed that the claims for reported losses have already been partially adjusted, the determined factor is reduced based on past experience for specific lines.

The (gross) annuity claims 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. As in the previous year, the actuarial interest rate is 0.9%.

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 section 29 RechVersV and the Appendix to section 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/or (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 determining the average rate of premium lapses for the last three years and multiplying it with the premiums for the current year. In the previous year the measurement was made by multiplying the annual premiums by the average ratio of provisions for premium lapse risks to premiums over the last three years. This conversion led to a EUR 1.1 million reduction in the provision for premium lapse risks at the end of the year.

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 provision 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 RechVersV are recognised as the negative balance of the income expected for the contracts for which there is a legal obligation at the balance sheet 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 years as published by the German Bundesbank in accordance with German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung; RückAbzinsV). The provision 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. The adjustment of benefits with respect to commitments under deferred compensation as a result of future expected surplus participation on the part of reinsurers was taken into account based on individual agreements.

The measurement is based on the turnover probabilities (probabilities of withdrawal) according to the "Heubeck 2005G actuarial charts", which were reduced based on the risk trend observed in the portfolio. Further information regarding trend assumptions, the discount rate and the difference in accordance with section 253(6) HGB is provided under section D.1 Provisions for pensions and similar obligations of this report.

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.

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 using the modified "Heubeck Mortality Tables 2018 G" as they are used to measure pension obligations. The calculations were based on the actuarial decrement tables for active employees. To this end, an actuarial interest rate of 0.87% (1.33%) was applied assuming an average remaining term of two years. As in the prior year, 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 2.32% (2.81%).

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 RückAbzinsV.

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 reporting date was presented under deferred income to the extent that it represents income for a specific period after the reporting date.

Deferred tax liabilities
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 for each permanent establishment were netted when determining accrued tax amounts. For this purpose, deferred tax liabilities from temporary differences (in particular from the provisions for premium transfers and the equalisation reserve as well as from accounts receivable from the reinsurance business) were netted with the deferred tax assets from temporary differences (in particular with respect to the differing carrying amounts in the financial accounts and the local tax accounts of the loss provisions and other provisions) as well as with deferred tax assets on tax loss carry forwards for all foreign branches separately for each individual country. Deferred taxes were measured based on the local tax rate. Due to the existing option to recognise deferred tax assets, the excess of assets over liabilities resulting from the netting was not accounted for on the balance sheet.

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. and B. I. to B. III in the 2018 financial year

EUR thousand		Balance sheet amounts for the prior year	Additions
A.	Intangible fixed assets		
	I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	21,272	367
B. I.	Land, land rights and buildings, including buildings on third-party land	165,767	52,625
B. II.	Investments in affiliated companies and long-term equity investments		
	1. Shares in affiliated companies	1,032,541	112,491
	2. Loans to affiliated companies	146,965	38,277
	3. Long-term equity investments	129,318	47,615
	4. Loans to other long-term investees and investors	13,161	–
	Total B. II.	**1,321,985**	**198,383**
B. III.	Other investments		
	1. Shares, shares in investment funds and other non-fixed interest securities	1,550,861	154,636
	2. Bearer bonds and other fixed interest securities	2,455,245	832,767
	3. Mortgages, land charges and annuity land charges	465	–
	4. Other loans		
	a) Registered bonds	640,362	233,765
	b) Promissory notes and loans	291,280	–
	5. Deposits with financial institutions	150,015	–
	Total B. III.	**5,088,228**	**1,221,168**
Total		**6,597,252**	**1,472,543**

Disposals	Reversal of write-downs	Exchange rate fluctuations	Amortisation, depreciation and write-downs	Balance sheet values for the financial year	Market values 31.12.2018
–	–	29	8,155	**13,513**	**n/a**
38,410	159	–	4,401	**175,740**	**206,491**
65,800	–	8,479	60,183	**1,027,528**	**1,275,565**
461	–	-100	–	**184,681**	**188,238**
183	–	288	743	**176,295**	**209,751**
–	–	551	–	**13,712**	**13,712**
66,444	**–**	**9,218**	**60,926**	**1,402,216**	**1,687,266**
193,609	–	2,843	8,011	**1,506,720**	**1,495,636**
419,513	297	20,034	357	**2,888,473**	**2,944,154**
37	–	–	–	**428**	**462**
97,993	–	1,435	–	**777,569**	**806,094**
52,720	–	1,667	–	**240,227**	**257,158**
87,573	–	6,164	–	**68,606**	**68,548**
851,445	**297**	**32,143**	**8,368**	**5,482,023**	**5,572,052**
956,299	**456**	**41,390**	**81,850**	**7,073,492**	**7,465,809**

B. Investments

Disclosures pursuant to section 52 no. 1a RechVersV

The carrying amount of owned properties used in connection with Company operations was equal to EUR 759 (40,094) thousand. The decrease resulted from the sale of three properties located in Hannover to HDI V.a.G. The resulting gain of EUR 44,488 thousand on the sale is reported under the item Gains on disposal of investments.

Disclosures pursuant to section 55(7) RechVersV

	Market values 31.12.2018
EUR thousand	
Determination of market values from the year	
2018	195,801
2013	10,690
Total	**206,491**

Investments with hidden losses (section 285 no. 18 HGB)

	Carrying amounts 31.12.2018	Market values 31.12.2018
EUR thousand		
Shares in affiliated companies	86,701	84,822
Shares, shares in investment funds and other non-fixed interest securities	420,670	404,878
Bearer bonds and other fixed interest securities	995,343	972,193
Total	**1,502,714**	**1,461,893**

A write-down in the amount of EUR 38,942 (10,243) thousand was avoided by means of dedication as fixed assets in accordance with section 341b(2) HGB. In the estimation of the Company, the impairment is temporary.

Disclosures pursuant to section 285 no. 19 HGB.

Separately accounting for the individual components of a structured financial instrument (convertible bond) results in seven (three) options, each with a carrying amount of zero. The fair value was not determined, as an economic exercise of the option is not planned.

Disclosures pursuant to section 277(3) HGB

Impairment losses were recognised on fixed assets in the financial year in the amount of EUR 68,937 (13,000) thousand.

Shares or shares in investment funds pursuant to section 285 no. 26 HGB

	Balance sheet values 31.12.2018	Market values 31.12.2018	Distribution 2018
EUR thousand			
Fixed income funds			
EURO-RENT 3 Master	1,010,194	1,010,505	17,656
BlueBay Emerging Mrkt. Inv. Grade Corp. Bond FD. I	31,963	31,920	1,790
Deutsche Invest I Emerging Markets Opportunities	30,255	29,966	0
Ampega CrossoverPlus Rentenfonds I (a)	3,500	3,606	77
Subtotal Fixed income funds	**1,075,912**	**1,075,997**	**19,523**
Mixed funds			
HDI Globale Equities	152,736	145,396	8,062
HDI Global SE Absolute Return	101,176	97,704	1,287
Subtotal Mixed funds	**253,912**	**243,100**	**9,349**
Total	**1,329,824**	**1,319,097**	**28,872**

Write-downs pursuant to section 253(3) sentence 4 HGB were not applied to the special funds reportable under hidden reserves, since the Company 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 amortised cost 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.

Disclosures pursuant to section 341b(2) HGB

The Company has exercised the option to classify investments with a carrying amount of EUR 4,289,037 (3,932,968) thousand as fixed assets. EUR 1,506,718 (1,550,861) thousand of this amount can be attributed to shares, shares in investment funds and other non-fixed interest securities and EUR 2,782,319 (2,382,107) thousand to bearer bonds and other fixed-interest securities.

B. II. Investments in affiliated companies and long-term equity investments

Name, registered office	Share in %[1]	Currency	Equity in thousand	Result in thousand
Caplantic AIF, SICA V-SIF S.C.Sp., Luxembourg[2]	20.59	EUR	2,000	-371
Credit Suisse (Lux) Gas Transit Switzerland SCS, Luxembourg[3]	16.31	EUR	124,980	-6,597
Extremus Versicherungs-Aktiengesellschaft, Cologne[4]	13.00	EUR	63,940	2,700
Funderburk Lighthouse Limited, Grand Cayman	100.00	USD	n/a	n/a
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne[4]	100.00	EUR	480,974	21,457
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne[4]	100.00	EUR	151,820	16,123
HDI-Gerling Verzekeringen N.V., Rotterdam[4]	100.00	EUR	149,335	16,891
HDI Global Insurance Limited Liability Company (Russia) (former O O O Strakhovaya Kompaniya HDI Strakhovanie), Moscow[4]	100.00	RUB	317,705	47,616
HDI Global Network AG, Hannover[4]	100.00	EUR	191,564	-[6]
HDI Global Network AG Escritório de Representaçao no Brasil Ltda, São Paulo[4]	100.00	BRL	313	370
HDI Global Seguros S.A., São Paulo[4]	100.00	BRL	52,947	3,474
HDI Global Specialty Holding GmbH, Hannover	100.00	EUR	n/a	n/a
HDI Risk Consulting GmbH, Hannover[4]	100.00	EUR	1,626	-[6]
IVEC Institutional Venture and Equity Capital GmbH, Cologne	23.80	EUR	30,252	-3,369
Magma HDI General Insurance Ltd., Kolkata[5]	25.50	INR	2,255,924	-324,461
Petro Vietnam Insurance Holdings, Hanoi[4]	47.31	VND	6,342,244	486,934
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover	50.00	EUR	147,025	5,482
VOV GmbH, Cologne[4]	35.25	EUR	1,993	7

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

2) Short financial year from 10 May 2016 to 30 September 2017.

3) Carrying amounts as at 30 June 2018.

4) Carrying amounts as at 31 December 2017.

5) Carrying amounts as at 31 March 2017.

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

C. III. Other receivables

EUR thousand	31.12.2018	31.12.2017
Claims payments/Co-insurance/Share of losses attributable to other companies	310,210	320,873
Receivables from affiliated companies	197,129	277,363
Receivables from tax authorities	26,358	35,089
Payments not yet assigned	18,960	6,845
Receivabels due to timing differences in accounting entries	17,990	15,782
Receivables from the sale of renewal rights	8,627	5,503
Receivables for incidental expenses incurred in connection with property	3,579	2,490
Receivables from security deposits, sureties and loan collaterals	1,808	2,399
Receivables from the sale of Oslo Fjord	1,069	2,056
Costs posted after the cost accounts are closed	996	1,581
Miscellaneous	10,094	10,970
Total	**596,820**	**680,951**

Receivables from affiliated companies relate in the amount of EUR 117,880 (203,855) thousand to receivables from the assumption of losses on the part of Talanx AG. In addition, there are other receivables based on income from long-term equity investments in the amount of EUR 48,736 (45,336) thousand. In addition, these also include receivables from HDI Global Network AG in the amount of EUR 19,385 thousand and from HDI Risk Consulting GmbH in the amount of EUR 397 thousand from the transfer of profits.

Receivables from the sale of renewal rights to affiliated companies amount to EUR 4,784 thousand.

Costs posted after the closing of the cost accounts (1 December 2018) were recognised as other receivables. In the following period, the accruals were reversed through profit and loss.

Other receivables have a remaining term of more than one year in the amount of EUR 8,366 (3,847) thousand.

D. I. Tangible fixed assets and inventories

EUR thousand	2018	2017
Balance as at the start of the financial year	10,497	10,973
Additions	2,679	6,979
Transfers	-538	–
Disposals	1,317	1,170
Amortisation, depreciation and write-downs	1,514	6,112
Exchange rate fluctuations	48	-173
Balance as at the end of the financial year	**9,855**	**10,497**

E. I. Deferred rent and interest income

Only income from interest was accrued in the amount of EUR 59,603 (55,453) thousand.

E. II. Other prepaid expenses

Other prepaid expenses in the amount of EUR 1,921 (2,414) 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 reserves are 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

	31.12.2018	31.12.2017
EUR thousand		
neue leben Lebensversicherung AG, Hamburg	88,632	88,632
PB Lebensversicherung AG, Hilden	88,632	88,632
HDI Versicherung AG, Hannover	20,000	20,000
Gerling Versorgungskasse VVaG, Cologne	2,736	2,736
Total	**200,000**	**200,000**

HDI Lebensversicherung AG granted HDI Global SE a subordinated loan with a contract dated 11 August 2014 in the nominal amount of EUR 180,000 thousand. HDI Lebensversicherung AG assigned the loan to neue leben Lebensversicherung AG, PB Lebensversicherung AG and Gerling Versorgungskasse VVaG with an assignment agreement dated 28 November 2017.

C. Total gross underwriting provisions

EUR thousand	31.12.2018	31.12.2017
Direct written insurance business		
Casualty insurance	244,237	220,971
Liability insurance	5,149,658	4,935,366
Motor third-party liability insurance	704,791	663,735
Other motor insurance	140,028	115,589
Fire and property insurance	1,151,540	996,195
of which:		
a) Fire insurance	409,442	345,005
b) Engineering insurance	676,926	593,791
c) Other property insurance	65,172	57,399
Marine and aviation insurance	554,662	541,825
Legal protection insurance	88,626	93,891
All-risk insurance	987,772	613,522
Other insurance	137,076	131,919
Total	**9,158,390**	**8,313,013**
Business accepted for reinsurance	3,851,544	3,531,944
Total insurance business	**13,009,934**	**11,844,957**

Of which:

a) Gross provision for outstanding claims: EUR 11,226,589 (10,113,736) thousand

b) Equalisation reserve and similar provisions: EUR 718,451 (730,780) thousand

C. II. 1. Gross provision for outstanding claims

EUR thousand	31.12.2018	31.12.2017
Direct written insurance business		
Casualty insurance	176,480	153,751
Liability insurance	4,718,735	4,542,091
Motor third-party liability insurance	653,445	602,550
Other motor insurance	63,448	65,104
Fire and property insurance	912,075	752,493
of which:		
a) Fire insurance	355,996	275,755
b) Engineering insurance	501,455	429,004
c) Other property insurance	54,624	47,734
Marine and aviation insurance	479,591	472,561
Legal protection insurance	84,968	79,553
All-risk insurance	865,235	503,282
Other insurance	122,463	117,594
Total	**8,076,440**	**7,288,979**
Business accepted for reinsurance	3,150,149	2,824,757
Total insurance business	**11,226,589**	**10,113,736**

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

EUR thousand	2018	2017
profit-related premium refunds	–	4,188
non-profit-related premium refunds	32,371	9,948
Total	32,371	14,136

C. IV. Equalisation reserve and similar provisions

EUR thousand	31.12.2018	31.12.2017
Direct written insurance business		
Casualty insurance	9,772	28,387
Liability insurance	201,829	179,705
Motor third-party liability insurance	21,854	32,780
Other motor insurance	65,984	40,321
Fire and property insurance	20,246	37,718
of which:		
a) Fire insurance	20,246	37,670
c) Other property insurance	–	48
Marine and aviation insurance	39,855	36,347
Legal protection insurance	–	10,708
Other insurance	598	437
Total	**360,138**	**366,403**
Business accepted for reinsurance	358,313	364,377
Total insurance business	**718,451**	**730,780**

D. I. Provision for pensions and similar liabilities

	2018	2017
EUR thousand		
Balance as at the start of the financial year	424,640	407,403
Use	11,887	12,918
Addition	194	5,155
Reversal	904	2,419
Accrued interest / interest rate change	35,753	27,559
Exchange rate fluctuations	-661	-1,458
Balance (carried forward)	-2,650	1,318
Balance as at the end of the financial year	444,485	424,640

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. As in the previous year, the trend was assumed to be 2.50% with respect to increases in salary and 1.74% with respect to pension increases. The provisions for pensions were discounted using an interest rate of 3.21% (3.68%) and assuming a remaining term of 15 years.

Probable staff turnover rates (%)

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 settlement amount for the employer-funded provision for pensions as at 31 December 2018 was EUR 484,709 (462,629) thousand. The fund held to cover this amount was accounted for at fair value of EUR 41,571 (44,825) thousand in accordance with section 253(1) sentence 4 HGB. The cost of the fund converted based on the exchange rate prevailing on the reporting date was EUR 40,374 (40,739) thousand.

The settlement amount for the employee-funded provision for pensions was EUR 10,770 (10,354) thousand. Nettable plan assets totalling EUR 9,438 (9,354) thousand represent pension liability insurance claims offset in the amount of EUR 9,422 (9,262) 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 246 thousand was netted with expenses from the unwinding of the discount on provisions for pension obligations in the amount of EUR 533 thousand in the reporting period.

The difference in accordance with section 253(6) sentence 1 amounts to EUR 59,634 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.

D. III. Other provisions

	31.12.2018	31.12.2017
EUR thousand		
Remuneration payable	28,794	27,331
Consulting costs	9,662	6,668
Vacation claims and credit balances in flextime accounts	6,706	6,313
Partial retirement	5,847	5,768
Costs for the preparation of the annual financial statements	3,103	3,114
Anniversary bonuses	2,190	4,662
Administrative expenses of foreign branch offices	2,100	1,333
Provisions for costs	1,716	1,633
Pension fund	1,120	1,052
Outstanding invoices for building-related expenses	990	744
Berufsgenossenschaft (Employers´ Liability Association)	486	497
Litigation expenses	279	477
Interest on additional taxes resulting from the tax audit	–	9,610
Miscellaneous	3,507	3,632
Total	**66,500**	**72,834**

The settlement amount of the provision of partial retirement was equal to EUR 11,202 (11,201) thousand. The fund held to cover this amount was accounted for at fair value in the amount of EUR 5,354 (5,433) thousand. The cost of the fund amounted to EUR 5,425 (5,302) thousand.

F. IV. Other liabilities

	Term < 1 year 31.12.2018	Term < 1 year 31.12.2017	Term > 1 year 31.12.2018	Term > 1 year 31.12.2017	Total 31.12.2018	Total 31.12.2017
EUR thousand						
Liabilities from non-group lead business	236,005	326,658	123,219	–	359,224	326,658
Liabilities due to tax authorities	50,880	75,189	–	–	50,880	75,189
Liabilities not yet attributed	27,180	32,222	2,098	–	29,278	32,222
Liabilities to affiliated companies	20,065	248,122	–	–	20,065	248,122
Trade payables	4,712	1,708	20	1,473	4,732	3,181
Liabilities to social security institutions	1,298	1,208	–	–	1,298	1,208
Liabilities from the investing activities based on claim payments	841	2,304	–	–	841	2,304
Liability from the acquisition of corporate bonds	444	444	–	443	444	887
Miscellaneous	6,912	4,420	529	–	7,441	4,420
Total	**348,337**	**692,275**	**125,866**	**1,916**	**474,203**	**694,191**

In the previous year, EUR 200,000 thousand in liabilities to affiliated companies related to liabilities from a liquidity current account with Talanx AG.

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

G. Deferred income

EUR 1,323 (1,603) thousand in deferred income items in the amount of EUR 2,481 (2,721) thousand relates to management commissions collected for the subsequent year.

H. Deferred tax liabilities

The deferred tax liability accounted for in the amount of EUR 13,149 thousand in the previous year as a result of an excess of deferred tax liabilities over deferred tax assets (after netting with deferred tax assets on tax loss carry forwards from foreign branches) was reversed, as there was an excess of deferred tax assets over deferred tax liabilities in the financial year.

Tax rates

	2018
in %	
Australia, Sydney	30.0
France, Paris / Japan, Tokyo	28.0
Canada, Toronto	26.6
Greece, Athens	26.0
Belgium, Brussels / Norway, Oslo / Spain, Madrid	25.0
Italy, Milan	24.0
Denmark, Copenhagen	22.0
Switzerland, Zurich	21.3
The Netherlands, Rotterdam	20.5
United Kingdom, London	17.0
China, Hong Kong	16.5
Singapore	13.5
Ireland, Dublin	12.5
Bahrain, Manama / Malaysia, Labuan	0.0

Income statement

I. 1. a) Gross written premiums

EUR thousand	2018	2017
Direct written insurance business		
Casualty insurance	143,774	136,852
Liability insurance	975,926	924,847
Motor third-party liability insurance	300,312	282,352
Other motor insurance	161,016	153,436
Fire and property insurance	584,982	535,358
of which:		
a) Fire insurance	209,952	193,789
b) Engineering insurance	307,746	281,502
c) Other property insurance	67,284	60,067
Marine and aviation insurance	326,338	304,920
All-risk insurance	589,678	544,446
Legal protection insurance	23,849	22,606
Other insurance	97,343	86,656
Total	**3,203,218**	**2,991,473**
Business accepted for reinsurance	1,413,039	1,409,780
Total insurance business	**4,616,257**	**4,401,253**

Origin of gross written premiums for the direct written insurance business

EUR thousand	2018	2017
In Germany	1,562,624	1,553,594
Other member states of the European Community as well as other treaty states of the Agreement Creating the European Economic Area	1,278,809	1,124,271
Third countries	361,785	313,608
Total	**3,203,218**	**2,991,473**

I. 1. Gross premiums earned

EUR thousand	2018	2017
Direct written insurance business		
Casualty insurance	143,424	134,350
Liability insurance	958,910	914,933
Motor third-party liability insurance	298,598	269,928
Other motor insurance	160,593	151,452
Fire and property insurance	571,478	523,359
of which:		
a) Fire insurance	208,506	189,278
b) Engineering insurance	296,907	273,777
c) Other property insurance	66,065	60,304
Marine and aviation insurance	324,487	309,073
All-risk insurance	577,893	532,370
Legal protection insurance	23,730	22,419
Other insurance	96,973	85,337
Total	**3,156,086**	**2,943,221**
Business accepted for reinsurance	1,416,790	1,358,309
Total insurance business	**4,572,876**	**4,301,530**

I. 1. Net premiums earned

EUR thousand	2018	2017
Direct written insurance business		
Casualty insurance	104,808	104,531
Liability insurance	528,191	505,010
Motor third-party liability insurance	283,803	259,467
Other motor insurance	151,718	145,113
Fire and property insurance	270,177	254,067
of which:		
a) Fire insurance	89,191	83,277
b) Engineering insurance	152,695	143,806
c) Other property insurance	28,291	26,984
Marine and aviation insurance	231,217	226,123
All-risk insurance	148,681	136,304
Legal protection insurance	-50	19,898
Other insurance	50,175	47,035
Total	**1,768,720**	**1,697,548**
Business accepted for reinsurance	454,471	459,269
Total insurance business	**2,223,191**	**2,156,817**

I. 2. Underwriting interest income for own account

In the direct written gross insurance business, underwriting interest income was calculated on the annuity claims provision. As in the previous year, it amounts to 0.9% of the average of the opening and closing balance of the provision.

I. 4. Gross expenses for insurance claims

	2018	2017
EUR thousand		
Direct written insurance business		
Casualty insurance	94,902	85,439
Liability insurance	690,050	572,933
Motor third-party liability insurance	254,486	231,056
Other motor insurance	121,225	118,282
Fire and property insurance	562,441	342,032
of which:		
a) Fire insurance	268,644	116,348
b) Engineering insurance	254,941	191,140
c) Other property insurance	38,856	34,544
Marine and aviation insurance	215,465	197,954
All-risk insurance	725,593	355,246
Legal protection insurance	20,318	19,764
Other insurance	62,746	52,694
Total	**2,747,226**	**1,975,400**
Business accepted for reinsurance	1,128,679	1,467,289
Total insurance business	**3,875,905**	**3,442,689**

I. 7. a) Gross expenses for insurance operations

	2018	2017
EUR thousand		
Direct written insurance business		
Casualty insurance	31,475	30,491
Liability insurance	176,878	167,690
Motor third-party liability insurance	47,998	48,925
Other motor insurance	29,577	28,503
Fire and property insurance	126,908	119,779
of which:		
a) Fire insurance	41,943	40,904
b) Engineering insurance	72,813	65,551
c) Other property insurance	12,153	13,324
Marine and aviation insurance	77,612	75,026
All-risk insurance	88,592	92,827
Legal protection insurance	5,662	5,706
Other insurance	28,652	26,643
Total	**613,354**	**595,590**
Business accepted for reinsurance	287,265	281,153
Total insurance business	**900,619**	**876,743**

Of the gross expenses for insurance operations for the financial year, EUR 116,236 (120,939) thousand are attributable to acquisition expenses and EUR 784,382 (755,804) thousand are attributable to general and administrative expenses.

Reinsurance balance

	2018	2017
EUR thousand		
Direct written insurance business		
Casualty insurance	-26,651	-10,123
Liability insurance	-85,959	-153,858
Motor third-party liability insurance	-6,831	-1,218
Other motor insurance	156	-3,327
Fire and property insurance	60,820	-21,539
of which:		
a) Fire insurance	50,963	-20,588
b) Engineering insurance	24,094	3,715
c) Other property insurance	-14,237	-4,666
Marine and aviation insurance	-27,526	-37,836
All-risk insurance	87,801	-166,308
Legal protection insurance	-709	7,293
Other insurance	-13,397	-11,483
Total	**-12,296**	**-398,399**
Business accepted for reinsurance	-88,056	144,775
Total insurance business	**-100,352**	**-253,624**

– = in favour of the reinsurers

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

The balance for the reinsurance business includes a total amount of EUR 257 (284) million for non-cash reinstatement premiums. This breaks down into EUR 213 (238) million for the direct written insurance business and EUR 44 (46) million for the business accepted for reinsurance.

I. 11. Underwriting result for own account

	2018	2017
EUR thousand		
Direct written insurance business		
Casualty insurance	4,790	5,738
Liability insurance	-15,199	-12,416
Motor third-party liability insurance	-739	-1,104
Other motor insurance	-15,719	-16,359
Fire and property insurance	-44,980	-9
of which:		
a) Fire insurance	-40,694	-27,326
b) Engineering insurance	-5,559	19,531
c) Other property insurance	1,273	7,786
Marine and aviation insurance	-1,838	-23,455
All-risk insurance	-148,375	-85,541
Legal protection insurance	8,014	-748
Other insurance	-7,571	-5,736
Total	**-221,617**	**-139,630**
Business accepted for reinsurance	-68,107	-271,468
Total insurance business	**-289,724**	**-411,098**

Run-off result for own account

In the financial year, HDI Global SE realised a run-off profit in the amount of EUR 259,204 (300,493) 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

	2018	2017
EUR thousand		
Commissions of any kind for insurance agents within the meaning of section 92 HGB for direct written insurance business	298,343	273,011
Wages and salaries	224,772	225,265
Social insurance contributions and expenses for benefits	36,021	34,710
Expenses for retirement benefits	16,335	18,854
Total expenses	**575,471**	**551,840**

Number of insurance contracts with a minimum term of one year

	2018	2017
Number		
Direct written insurance business		
Casualty insurance	57,666	44,540
Liability insurance	179,492	95,333
Motor insurance	674,558	665,130
Fire and property insurance	79,265	71,382
of which:		
a) Fire insurance	25,496	25,352
b) Engineering insurance	46,213	38,656
c) Other property insurance	7,556	7,374
Marine and aviation insurance	45,432	31,349
All-risk insurance	93,677	53,545
Legal protection insurance	13,407	14,528
Other insurance	41,061	27,935
Total	**1,184,558**	**1,003,742**

II. 4. Other income

	2018	2017
EUR thousand		
Income from services rendered	28,712	27,799
Income from reversal of specific and global valuation allowances	7,385	1,975
Interest and similar income	6,711	1,510
Currency exchange gains	4,847	6,067
Income from the sale of renewal rights	4,740	–
Income from the derecognition of liabilities	1,390	62,268
Income from the reversal of other provisions	914	990
Miscellaneous	2,434	2,871
Total	**57,133**	**103,480**

In the previous year, liabilities in the amount of EUR 56,710 thousand (unrelated to the accounting period) were derecognised in connection with a balance clarification primarily with reinsurers.

II. 5. Other expenses

	2018	2017
EUR thousand		
Additions to the interest portion of the provision for pensions	35,297	26,775
Expenses for services	23,953	24,635
Interest expense	15,261	11,320
Currency exchange losses	11,271	5,475
Expenses for the Company as a whole	10,901	7,849
Other expenses from cost unit accounting	8,491	7,710
Amortisation and write-downs of intangible fixed assets	7,841	7,930
Write-downs of receivables	5,784	30,431
Project cost for the migration of the foreign branch offices	–	1,713
Miscellaneous	2,496	3,252
Total	**121,295**	**127,090**

In the previous year, receivables in the amount of EUR 19,884 thousand (unrelated to the accounting period) were written off in connection with a balance clarification primarily with reinsurers.

Interest expenses include expenses for the unwinding of the discount in the amount of EUR 245 (157) thousand.

As a general rule, the expense of changes in interest rates related to pension obligations is shown under other expenses in compliance with IDW AcP HFA 30 para. 87 in order to facilitate greater transparency in the presentation of the costs of the ongoing insurance business in contrast with capital market and regulatory influences on the existing pension obligation. Differing from this, the income from the statutory amendment for the determination of the actuarial interest rate was recorded as a 10-year average instead of before as a 7-year average in other comprehensive income.

II. 8. Extraordinary result

The line item Extraordinary result amount to EUR -10 (-2,806) thousand. In the previous year it mainly reflects the full funding of provisions for pensions in accordance with the German Accounting Law Modernization Act (BilMoG) in the amount of EUR 2,815 thousand.

II. 9. Taxes on income

Taxes on income amount to EUR 28,477 (30,526) thousand and relate mainly to German income taxes for prior assessment periods in the amount of EUR 30,970 thousand. For the foreign branches there are current taxes for the financial year as well as for prior assessment periods in the amount of EUR 9,886 thousand, offset by income from the reversal of deferred tax assets in the amount of EUR 13,149 thousand.

II. 10. Other taxes

The line item Other taxes relates in the amount of EUR 2,735 thousand to expenses on the part of the foreign branches and in the amount of EUR 1,242 thousand to German expenses from other taxes (of which EUR 519 thousand can be attributed to property taxes and EUR 492 thousand to insurance and fire protection taxes), resulting in an expense from other taxes in the amount of EUR 3,977 thousand.

Other disclosures

Employees

	2018	2017
Number (average)		
Full-time employees	2,436	2,444
Part-time employees	442	427
Total	**2,878**	**2,871**

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 4,218 (5,649) thousand. Total remuneration for the Supervisory Board was equal to EUR 74 (70) thousand and remuneration for the Advisory Board totalled EUR 566 (611) thousand. The remuneration of former Board of Management members and their survivors totalled EUR 7,238 (4,770) thousand. A total of EUR 61,436 (57,713) 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, HDI Risk Consulting GmbH and HDI Global Network AG as the controlled companies.

In light of the transfer of the shares of HDI Global Underwriting Agency GmbH (formerly: Nassau Assekuranzkontor GmbH) and of HDI Schadenregulierung GmbH from HDI Global SE to HDI Global Specialty Holding GmbH, the sole subsidiary of HDI Global SE, the control and profit-and-loss-transfer agreements between HDI Global SE as the controlling company and HDI Global Underwriting Agency GmbH and HDI Schadenregulierung GmbH as the controlled companies were each rescinded upon the expiration of 31 December 2018.

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 the Company that it holds a direct majority interest in HDI Global SE, Hannover (notice pursuant to section 20(4) AktG) and that it holds more than one fourth of the shares 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.

HDI Global SE set up a trust account that showed a current balance of EUR 324,668 thousand as at the balance sheet date in order to provide collateral for underwriting liabilities on the part of HDI Global Insurance Company. The carrying amount of the collateral deposited in this trust account in the form of securities and cash amounted to EUR 330,574 thousand as at the balance sheet date. In addition, there are other assets pledged, assigned as collateral or deposited with a carrying amount of EUR 97,067 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 63,551 thousand as at the end of the financial year.

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 HDI International AG; formerly: 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 of the German Transformation Act (Umwandlungsgesetz; 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. The total amount of these liabilities is equal to EUR 4,475 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 1,103 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 8,025 thousand are related to guaranteed credits (Avalkredite) and bank guarantees (Bankgarantien). Letters of credit in effect with various banks total EUR 559,646 thousand. In addition, there are obligations from fixed liability guarantees in the amount of EUR 68,000 thousand and a commitment for a subordinated loan to HDI-Gerling Verzekeringen N.V. in the amount of EUR 60,000 thousand.

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

Capital contribution commitments vis-à-vis contracting parties

EUR thousand	31.12.2018
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne	47,868
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne	34,490
Caplantic AIF, SICA V-SIF S.C.Sp. - Caplantic Infrastructure I Sub-Fund	16,211
Ares Senior Direct Lending Parallel Fund (U) LP	13,099
Monroe Capital Private Credit Fund III LP	12,444
AG DL III Offshore Unlevered LP	12,117
Ares Capital Europe IV (E) Unlevered	8,387
Muzinich Pan-European Private Debt I, SCSp	8,087
UBS Clean Energy Infrastructure Switzerland 2, KmGK, Basel	6,251
Five Arrows Direct Lending SCSp	5,986
BlueBay Senior Loan Fund I (A) SLP	5,653
EQT Credit II (No. 1) Limited Partnership	4,462
Crown European Private Debt II S.C.Sp.	3,000
Ares Capital Europe II (E), L.P.	1,520
NRD Citygate Bremen (Nachrang)	1,500
Borkum Riffgrund 2 Investor Holding GmbH	1,159
Total	**182,234**

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

There are other contractual commitments vis-à-vis Aurelis Asset GmbH, Eschborn, in the amount of EUR 1,813 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.

The independent auditor audited the annual financial statements, including the management report and the reporting package prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2018. The reporting packages prepared on a quarterly basis in accordance with IFRS are subjected to a review. In addition, the solvency statement for the year ended 31 December 2018 was audited. Furthermore, investigations were conducted with respect to special matters in connection with affiliated companies, tax compliance services related to wage tax matters and benchmarking services related to motor insurance.

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 section 341i 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 315e(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

HDI Global SE acquired an interest of 50.22% in HDI Global Specialty SE (formerly International Insurance Company of Hannover SE) for a purchase price of EUR 100 million effective 8 January 2019. This is an intra-Group joint venture with Hannover Rück SE for the bundling of the specialty activities in the Talanx Group.

A control and profit-and-loss-transfer agreement was entered into between HDI Global SE and HDI Global Specialty Holding GmbH that will take effect as of 1 January 2019 after it is approved by the BaFin and entered in the commercial register.

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

Hannover, 18 February 2019

The Board of Management

Dr. Christian Hinsch

Frank Harting	Clemens Jungsthöfel	Dr. Thomas Kuhnt
Dr. Edgar Puls	Dr. Stefan Sigulla	Jens Wohlthat

INDEPENDENT AUDITOR’S REPORT

To HDI Global SE, Hannover

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of HDI Global SE, Hannover, which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January to 31 December 2018 and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of HDI Global SE for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the re-quirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Measurement of investments

❷ Measurement of the provision for outstanding claims ("loss reserves")

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ Measurement of investments

① Investments are stated at EUR 7,121.3 million (75.3% of total assets) in the Company's annual financial statements. For investments that are not measured on the basis of stock exchange prices or other market prices (e.g. for equity investments not quoted on stock exchanges, registered bonds, notes receivable and loans as well as real estate), there is an elevated measurement risk due to the necessity of using model calculations. In this context judgements, estimates and assumptions are to be made by the management. Minor changes in these assumptions as well as in the methods applied can have a significant effect on the measurement of the investments. The measurement of the investments was particularly important during our audit due to the material importance of the investments for the Company's net assets and results of operations as well as the judgements on the part of management and the associated estimation uncertainties.

② Considering the importance of the investments for the Company's business as a whole, we assessed the models used by the Company and assumptions made by the management during our audit, based, among other things, on our valuation expertise for investments, our industry knowledge and our industry experience. We also assessed the structure and effectiveness of the controls set up by the Company for the valuation of the investments and recognition of the result from investments. Building on this, we conducted further analytical audit procedures and tests of detail with respect to the valuation of the investments. Among other things, we also closely examined the underlying carrying amounts and their recoverability using the records provided and reviewed the consistent application of the valuation methods and proper accrual of the investments. In addition, we assessed the valuation reports obtained by the Company (including the applied valuation parameters and assumptions made) for the Company's key properties. Based on our audit procedures, we were satisfied that the estimates and assumptions made by the management regarding the valuation of the investments are justified and sufficiently documented.

③ The Company's disclosures regarding its shares in affiliated companies are contained in the Notes to the annual financial statements in the Section entitled Accounting policies and Assets.

❷ Measurement of the provision for outstanding claims (“loss reserves”)

① In the Company’s annual financial statements, provision for outstanding claims (“loss re-serves”) are reported in the gross amount of EUR 11,226.60 million under the balance sheet item Provision for outstanding claims. Insurance companies are to recognise underwriting provisions insofar as they are necessary based on prudent business judgement in order to en-sure the permanent ability to satisfy obligations under insurance contracts. In addition to taking the requirements under German GAAP and regulatory requirements into account, the determination of assumptions in order to measure the underwriting provisions requires an estimation of future events and the application of appropriate valuation methods. Judgements and assumptions made by the management are based on the methods applied to determine the amount of the provision for outstanding claims as well as the calculation parameters. Minor changes in these assumptions as well as in the methods applied can have a significant effect on the measurement of the provision for outstanding claims. The measurement of the provision for outstanding claims was particularly important during our audit due to the material importance of these provisions for the Company’s net assets and results of operations as well as the management’s significant (accounting) judgements and the associated estimation uncertainties.

② Considering the importance of the provision for outstanding claims for the Company’s busi-ness as a whole, we assessed the methods used by the Company and the assumptions made by the management during our audit together with our internal valuation specialists, based, among other things, on our industry knowledge and our industry experience as well as on generally accepted methods. We also assessed the structure and effectiveness of the controls set up by the Company for the determination and recognition of the provision for outstanding claims. Building on this, we conducted further analytical audit procedures and tests of detail with respect to the measurement of the provision for outstanding claims. Among other things, we also reconciled the data underlying the calculation of the settlement amount with the base documents. Accordingly, we closely examined the results calculated by the Company regarding the amount of the provisions on the basis of the applied statutory requirements and reviewed the consistent application of the measurement methods and the proper accrual of the provisions. Based on our audit procedures, we were satisfied that the estimates and assumptions made by the management regarding the measurement of the provision for outstanding claims are justified and sufficiently documented.

③ The Company's disclosures regarding its provision for outstanding claims are contained in the Notes to the financial statements in the sections entitled Accounting policies and Equity and liabilities.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor’s report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company’s position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as auditor by the supervisory board on 9 March 2018. We were engaged by the supervisory board on 28 September 2018. We have been the auditor of the HDI Global SE, Hanno-ver without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the addi-tional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Florian Möller.

Hannover, 8 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Florian Möller	pp. Janna Brüning
Wirtschaftsprüfer	Wirtschaftsprüferin
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Geschäftsbereich Industrieversicherung
Industrial Lines Division

- HDI Global SE
- HDI Global Specialty SE
- HDI Versicherung AG (Austria)
- HDI Global Seguros S.A. (Brazil)
- HDI Global Network AG
- HDI-Gerling de México Seguros S.A.
- HDI Global Insurance Limited Liability Company (Russia)
- 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*

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

Geschäftsbereich Privat- und Firmenversicherung International
Retail International Division

- HDI International AG
- HDI Seguros S.A. (Argentina)
- HDI Seguros S.A. (Brazil)
- HDI Seguros S.A. (Chile)
- HDI Seguros S.A. (Colombia)
- HDI Seguros de Vida S.A. (Colombia)
- 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)
- 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
- 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

- Ampega Asset Management GmbH
- Ampega Investment GmbH
- Ampega Real Estate GmbH
- HDI Service AG
- HDI Systeme AG
- Talanx Reinsurance Broker GmbH
- HDI Reinsurance (Ireland) SE

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 30.1.2019

400-GB189

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