HDI Global SE

2019 Annual Report

HDI Global SE at a glance

		2019	2018
Gross premium income	EUR million	4.449	4,616
Increase/decrease in gross premium income	%	-3,6	4.9
Income from premiums earned for own account	EUR million	2.110	2,223
Expenses on insurance claims for own account	EUR million	1.694	1,999
Loss ratio for own account[1)]	%	80,3	89.9
Expenses for insurance operations for own account	EUR million	518	528
Expense ratio for own account[2)]	%	24,6	23.7
Underwriting result before equalisation reserve for own account	EUR million	-103	-302
Combined ratio for own account[3)]	%	104,9	113.7
Investments	EUR million	7.653	7,121
Investment income	EUR million	263	358
Non-underwriting result [4)]	EUR million	146	205
Result from ordinary activities	EUR million	85	-85
Tax expense	EUR million	34	32
Loss (–)/ profit transferred under a profit-and-loss transfer agreement	EUR million	51	--118
Operating profit/loss (result from ordinary activities less changes in the equalisation reserve)	EUR million	43	-97
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	677	718
Other underwriting provisions for own account[5)]	EUR million	6.203	6,117
Total	EUR million	7.487	7,442
Of earned premiums for own account	%	354,8	334.8
Ratio of underwriting provisions for own account[6)]	%	269,0	250.3
Insurance contracts	1,000	1.285	1,185
Reported claims	1,000	244	265
Average number of employees throughout the year	Number	2.866	2,878

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

Dear Shareholders, Ladies and Gentlemen,

Financial year 2019 was dominated by efforts to increase the profitability of our portfolio. After more than a decade of the so-called soft market and years of underwriting losses, last year we implemented a resolute course correction of our underwriting practice, in particular in the fire insurance line. It was high time. And it worked. This is shown by the most important key indicators of our balance sheet.

Gross premium income decreased as expected by 3.6% to EUR 4.4 billion (previous year: EUR 4.6 billion), due in part to the transfer of specialty business to HDI Global Specialty. However, at the same time we improved the combined ratio – one of our most important targets – by almost nine percentage points to 104.9%. We have not yet reached our goal, but the path is the right one. We have significantly increased net operating income and returned to the black. It amounted to EUR 43 million at the end of the financial year (previous year: EUR -97 million). All in all, this is a largely positive result.

In the process, we had to settle a whole series of large losses. The floods in Brazil caused more than EUR 27 million in damage, Hurricane Dorian in the Caribbean almost EUR 20 million, and the depression Jörn, which wreaked havoc in particular in southern Germany, around EUR 13 million (all net figures). In total, the large losses amounted to more than EUR 200 million. Total gross claims expenses in the reporting period amounted to EUR 3.1 billion. This means that, on average, we paid out more than EUR 12 million each working day to policyholders directly or spent for settling their claims, respectively.

The significant reduction of our combined ratio is a good indication of the success of our 20/20/20 restructuring programme. The goal of this programme was to increase premiums for 20% of our overall portfolio (fire risks) by at least 20% by the year 2020. We have successfully completed the 20/20/20 programme.

The figures show that the path we have taken is the right one and is showing success, but with a combined ratio of 104.9% we have not yet reached our goal. Therefore, we will continue our unflagging efforts to increase profitability also in the current financial year. The most important measures include, among other things, consistent underwriting discipline, strict application of our pricing guidelines and the reduction of (lead) lines to reduce our volatility. The principle remains: profitability before growth. However, two other important principles also remain: We maintain our consistently fair communication with customers, brokers and business partners and we negotiate individual and risk-adequate premiums. As a partner of the industry, we have a special responsibility here.

In the past financial year, we also provided important new impulses in areas such as digitalisation and the Internet of Things. For example, we entered into a cooperation with the start-up builder Next Big Thing (NBT) based in Berlin. NBT is part of the Digital Hub Initiative of the Federal Ministry for Economic Affairs and Energy and focuses on new fields of technology such as the Industrial Internet of Things (IIoT). Thus, NBT has technological and entrepreneurial expertise that is of great strategic importance for us as an industrial insurer and for our customers. The transfer of expertise associated with this cooperation will not only serve to offer new and innovative insurance products in the future, but will also help to establish business models based on the Internet of Things.

We are pursuing similar goals with other initiatives in this area. This includes our membership in the IoT user association MindSphere World. And our cooperation with Schneider Electric, which began last year in the field of machine data acquisition and analysis, fits in well with this – always with the goal of identifying and minimising our customers‘ risks even faster.

An important step on the way to digitalising our processes was also the introduction of a unified and interdisciplinary Underwriting Workbench. It is the central application that guides our underwriters through the process, supports pricing and consistently captures process-relevant data. In setting up the Underwriting Workbench we deliberately chose an agile development process. The first international stage already brought clear added value for users and the Company. Further development now incorporates user feedback and experience from productive use at an early stage.

This is just one example of the cultural change we initiated in our Company last year. It also became visible in the Large Account Pricing Lab, where international colleagues from different insurance lines and business units jointly assess risks and calculate our pricing requirements. The cooperation in this lab was characterised by ownership, performance and team spirit as well as the mutual strengthening of our company. The new culture also came to life in many workshops on agile working methods, both in Hannover and in many branches at home and abroad. The new form of our cooperation is also tangible in our newly designed offices, where we have literally torn down walls – even in the boardroom. These measures led to a new way of working together across hierarchical levels.
This cultural change ultimately became clearly visible in the formulation of a motto with which we in the HDI Group now describe our purpose:

Together we take care of the unexpected and foster entrepreneurship.

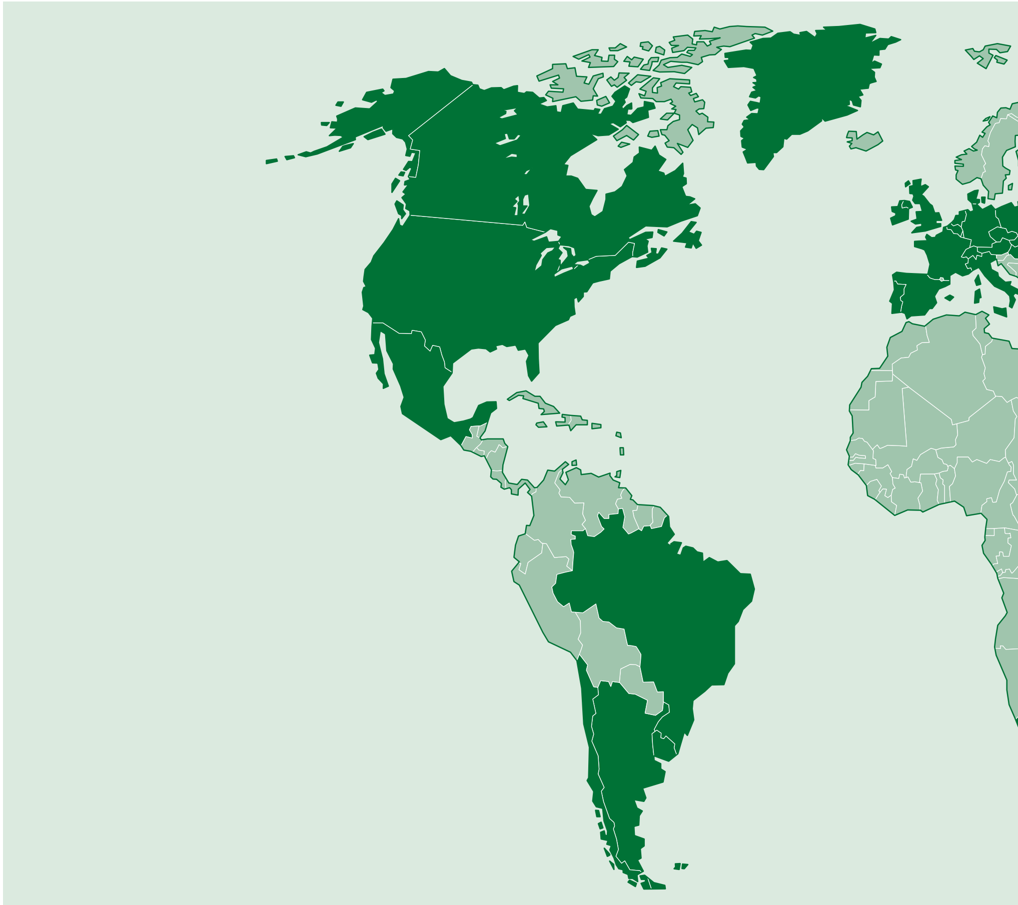
In this way we explain in a few words what drives us all in our work and why we give our best every day – for our Company as well as for our policyholders.

So we have achieved a great deal in a short time. My colleagues on the Board of Management and I would like to express our sincere thanks to all those involved. Our success will continue to be determined in the future by the outstanding expertise of our employees and their great personal commitment. We would also like to thank our customers and business partners for their confidence in our services. Providing high-quality insurance protection for our policyholders will continue to be our most important concern in the future.

Sincerely,

Dr Edgar Puls
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

Austria
HDI Versicherung AG
Vienna

Bahrain
HDI Global SE
Manama

Belgium
HDI Global SE
Brussels/Antwerp

Brazil
HDI Global Seguros S.A.
São Paulo

Canada
HDI Global SE
Toronto

Chile
HDI Seguros S.A.
Santiago

China
HDI Global SE
Hong Kong

Czech Republic
HDI Versicherung AG
Prague

Denmark
HDI Global SE
Copenhagen

France
HDI Global SE
Paris/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 Global Seguros S.A.
Mexico City

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

USA
HDI Global Insurance Company
Chicago/Los Angeles

Vietnam
PVI Insurance Corporation
Hanoi

The Netherlands
HDI Global SE
Rotterdam/Amsterdam

HDI-Gerling Verzekeringen N.V.
Rotterdam/Amsterdam

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

Turkey
HDI Sigorta A.Ş.
Kadıköy/İstanbul

*As at 20.12.2019

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

01 South German Iron and Steel Industry
Dr Michael H. Müller
Chairman of the Supervisory Board of Saarstahl AG and the stock corporation of Dillinger Hüttenwerke,
Lawyer,
Saarbrücken
(until 21 February 2019)

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
Dipl Jur Dirk M. Zschalich
Managing Partner of
HEROSE GmbH,
Bad Oldesloe

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
Ernst-Michael Hasse
Chairman of the Advisory Board of Synflex Group,
Synflex Elektro GmH & Co. KG,
Lügde/Blomberg

Dr Jochen Kress
Managing Partner of
MAPAL Fabrik für Präzisionswerkzeuge, Dr. Kress KG,
Aalen

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-Foundation,
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
Stefan Fahrig
Managing Director of
Bitburger Braugruppe GmbH,
Bitburg
(since 1 June 2019)

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

40 Paper and Printing Companies
Dipl-Kfm Lambert Lensing-Wolff
Managing Director of
Lensing Media GmbH & Co. KG,
Dortmund

55 Ceramics and Glass Companies
Dipl-Kfm Josef Kallmeier
Managing Director of Porzellanfabriken
Christian-Seltmann GmbH,
Weiden

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
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
Michael Eggenschwiler
Chairman of the Board of Directors of
Flughafen Hamburg GmbH,
Hamburg

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

Governing bodies of the Company

Supervisory Board

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

Ulrich Weber
Deputy Chairman
Krefeld
Attorney-at-law

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

Dr Michael Ollmann
Hamburg
Management Consultant

Sebastian Gascard*
Isernhagen
In-house Company Lawyer
(Liability Underwriter)
HDI Global SE

Jutta Mück*
Diemelstadt
Account Manager
Sales Industrial Lines
HDI Global SE

* Employee representative

Board of Management

Dr Edgar Puls
Chairman (since 09.05.2019)

Member of the Board of Management responsible for
- the Chairman duties as stipulated under the Rules of Procedure
- Compliance
- Internal Auditing
- Human Resources

as well as Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G. and of Talanx AG

Dr Christian Hinsch
(until 09.05.2019)
Chairman

Yves Betz
(since 01.12.2019)
Member of the Board of Management responsible for
- Region Europe
- Region Americas (North and South America)
- Global Marketing

Frank Harting
Member of the Board of Management responsible for
- Industry Division
- Corporate Division
- Advisory Boards

David Hullin
(since 09.05.2019)
Member of the Board of Management responsible for
- Property insurance
- Engineering insurance
- Marine and credit insurance
- Motor insurance
- Risk Engineering

Clemens Jungsthöfel
Member of the Board of Management responsible for
- Accounting
- Premium Collections
- Cash Management, ALM, Capital Management
- Controlling, Investment Controlling
- Money Laundering Prevention
- Risk Management
- Actuarial Function
- Coordination of passive reinsurance

Dr Thomas Kuhnt
Member of the Board of Management responsible for
- Operations and IT administration
- IT demand and major projects
- Pricing and Guidance
- Group accident insurance

Dr Stefan Sigulla
(until 31.08.2019)

Jens Wohlthat
Member of the Board of Management responsible for
- Liability insurance and legal protection insurance
- Region East: Africa, APAC, Russia
- HDI Global Network
- Specialty Business
- Cyber insurance
- Aviation insurance
- Strategic investments

Report of the Supervisory Board

The Supervisory Board monitored the conduct of the business by the Board of Management in the past financial year 2019 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 11 March 2019, 21 August 2019 and 6 November 2019. In the meetings, the reports of the Board of Management on the current financial year and the economic and financial performance of the Company were discussed in detail. As part of the written and verbal reporting, the Supervisory Board was also informed about the Company‘s risk position as well as any changes that had occurred together with their causes.

The Supervisory Board generally participated in the decisions of the Board of Management within the scope of its legal and statutory responsibility and assured itself that the management of the Company was conducted in a manner that was lawful, proper, appropriate and profitable. During the 2019 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 deliberations focused, among other things, on the future strategic orientation of the Company, the course of the restructuring activities, the reorganised specialty business and the digital transformation. Furthermore, the operational planning of the Company for financial year 2020 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 2019 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 6 March 2020, which are thereby adopted. The management report, and in particular the statements made therein regarding the future development of the Company, were also approved.

Composition of the Supervisory Board and the Board of Management

The composition of the Supervisory Board did not change in the 2019 reporting period.

The previous Chairman of the Board of Management, Dr Christian Hinsch, and Dr Stefan Sigulla resigned from the Board of Management effective as of the close of the Annual General Meeting of Talanx AG on 9 May 2019 and 31 August 2019 respectively. Dr Edgar Puls was appointed as the new Chairman of the Board of Management. David Hullin and Yves Betz were appointed as new members of the Board of Management effective as of the close of the Annual General Meeting of Talanx AG on 9 May 2019 and 1 December 2019 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, 6 March 2020

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 Europe. 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. One of HDI Global SE's strategic objectives is globalisation in order to serve globally active clients with local policies even better by providing the specified service and insurance protection worldwide for all risks included.

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

Global economic growth in 2019 was significantly impacted by the high level of trade uncertainty caused by the protectionist US trade policy, persistent concerns regarding a disorderly exit of the UK from the EU ("no-deal Brexit") and geopolitical conflicts.

The German economy only narrowly escaped recession in the third quarter of 2019. For the year as a whole, gross domestic product grew by 0.6%, compared with the previous year when growth was still 1.5%. In addition to a negative export dynamic, in particular special sectoral factors were responsible for the poor result. The economy in the eurozone was especially affected by the slowing export growth. What is more, the continuing high level of uncertainty surrounding the Brexit negotiations as well as domestic political turbulence in Italy also had a negative impact on the business and consumer climate. However, a resilient labour market and a noticeable easing of fiscal and monetary policy supported growth, which fell from 1.9% in 2018 to an expected 1.2% in the year under review.

In the USA, in addition to the general weakness in global growth, the waning fiscal stimulus, the burden from the renewed escalation of the trade conflict with China and the tightening of monetary policy by the US Federal Reserve in 2018, among other things, caused a noticeable slowdown in growth momentum. Growth was in particular supported by surprisingly resilient consumption and a change in monetary policy. After 2.9% in 2018, US growth fell to 2.3% in the year under review.

A difficult foreign trade environment, lower oil and industrial metals prices and less interest on the part of investors put economic development in developing countries under pressure. Economic growth in China in 2019 was burdened in particular by the renewed escalation of the trade conflict with the USA, and at 6.1% fell to its lowest level in 30 years.

Weak global growth and generally lower commodity prices caused inflation rates to decline. Even in economies with a low rate of unemployment there was no significant price pressure. In the USA and in the eurozone, inflation rates fell to 1.8 % and 1.2% respectively, after 2.5% and 1.8% in the previous year.

These factors accordingly provided for a synchronised easing of monetary policy: The US Federal Reserve cut its key interest rate by

75 basis points and the European Central Bank implemented a comprehensive easing package in the second half of the year. Other major central banks also relaxed their monetary policies.

Capital markets
The weak growth and inflation performance and the resulting easing of monetary policy led to a significant decline in interest rate levels and thus to a continuation of the trend towards falling yields that began in the autumn of 2018. Ten-year US Treasury and Bund yields reached their lows of less than 1.5% and -0.7% respectively in the summer. A moderate recovery in yield levels then set in as the year progressed – with yields of around 1.9% in the USA and -0.2% in Germany at the end of the year. In a fundamental environment that remained stable for corporate bonds, risk premiums fell continuously over the course of the year, ensuring that credit products outperformed the AAA government bond and mortgage bond segment. The euro continued its trend from the previous year against the US dollar, falling from around USD/EUR 1.14 at the beginning of the year to just under USD/EUR 1.11 at the end of the year.

Global stock markets recorded an impressive annual performance in 2019. The high price gains right at the beginning of the year can also be seen as a recovery after the capital market correction at the end of 2018. The subsequent volatile sideways movement of the stock markets was characterised by the tension between high political uncertainty on the one hand and extensive easing measures on the part of central banks on the other. Towards the end of the year, stock markets showed a positive trend in the fourth quarter, allowing them to end 2019 as a whole with a very good annual performance despite weak earnings growth: The S&P 500 rose by 28.9% in the full year, the DAX by 25.5%, the EURO STOXX 50 by 24.8% and the Nikkei by 18.2%. The S&P 500 rose by 28.9% in the full year, the DAX by 25.5%, the EURO STOXX 50 by 24.8% and the Nikkei by 18.2%.

International insurance markets
Premiums in international property/casualty insurance exhibited slight growth overall for 2019, which was considerably higher in emerging markets than in developed insurance markets.

Losses caused by natural disasters in the year under review were at the level of the long-term average of the past 30 years. The proportion of insured losses was lower than in the previous year, partly due to a higher proportion of flood losses, which also in industrialised countries are less frequently insured than storm losses. The most damaging events of the year were two severe hurricanes in Japan, one of which brought extreme precipitation even outside the storm centre, followed by Hurricane Dorian in the USA and the Bahamas. In Europe, a combination of heat waves, severe storms and hailstorms was the largest loss driver. Profitability in international property/casualty insurance improved in the year under review, although this was partly due to realised investment gains.

Among the developed insurance markets, the strongest growth came from North America and the Asia-Pacific region. It was supported by rising premiums in industrial property insurance.

In Central and Eastern Europe, the development of insurance premiums in property/casualty insurance remained below the long-term trend.

In Latin America, premium growth stagnated in the wake of lower than expected overall economic growth. Growth was supported in particular by rising prices in property insurance and industrial liability insurance (Financial and Professional Liability).

The strongest premium growth in emerging markets was again generated in Asia, with the highest increases in China and India. The growth drivers in both countries were agricultural insurance policies, and in India also motor insurance.

The market environment in international Non-life Reinsurance continued to be challenging, among other things, due to price pressure resulting from existing overcapacity for the coverage of insurance risks. In sub-markets, price increases were recorded in the wake of contract renewal rounds, especially in programmes impacted by losses and regions such as North America. Following a very moderate large-loss experience in the first half of 2019, there was a marked increase in the claims burden from natural disasters in the second half of the year, especially in Japan and the USA.

German insurance industry
In property/casualty insurance, the German insurance industry recorded premium growth in 2019 at the prior year's level. Strong growth, particularly in property insurance, was counteracted by the cooling economy and fierce price competition.

The final assessment of losses due to natural hazards by German property insurers in 2019 was marked by a number of extreme weather events, but overall, it remained at the previous year's level and in line with the long-term average. Claims payments for losses from storm and hail damage to motor vehicles almost doubled compared with the previous year, largely due solely to a series of storms at Pentecost. Other damaging events included the storms "Dragi" and "Eberhard" in March.

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 the Federal Republic of Germany, this is the responsibility of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin). In addition, there are extensive legal requirements for business activities. In recent years, the regulatory framework has become more stringent, which has led to increasing complexity. This trend continued in 2019.

Against the backdrop of the Insurance Distribution Directive (IDD) implemented in Germany on 23 February 2018, projects were launched at an early stage in the Group in order to meet the extensive requirements on schedule. The IDD aims to protect consumer interests with respect to product development and the distribution of insurance products and formulates guidelines for product monitoring and the governance of insurance products.

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). From the perspective of the supervisory authority, it explains overarching aspects of business organisation ("system of governance") as well as central terms such as "proportionality", "management boards" and "supervisory boards". Regardless of the lack of direct legally binding obligation of this Circular, 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.

On 26 June 2017, the Act transposing the 4th EU Money Laundering into German law (German Money Laundering Act; Geldwäschegesetz; (GWG)) went into effect. The affected Group companies of Talanx AG have issued rules and initiated organisational measures in order to fulfil the resulting statutory requirements. With the entry into force of the 5th EU Anti-Money Laundering Directive of 30 May 2018, the directive should be implemented in national law by 10 January 2020. In Germany, this took place on 1 January 2020 with the entry into force of the amended Money Laundering Act. The corresponding implementation at the companies belonging to the Talanx Group is for the first time a subject of the annual audit of the financial statements for the period ended 31 December 2020.

Digitalisation has increased in significance in recent years. This is accompanied by a transition to digital, data-based business models; the resulting legal issues and challenges with a focus on IT security are also playing an increasingly important role for the companies of the Talanx Group. With Circular 10/ 2018 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.

Within the Talanx Group we handle extensive personal data in the processing of applications, contracts and benefits. In order to ensure compliance with data protection requirements, such as the EU General Data Protection Regulation (GDPR) and the German Federal Data Protection Act (Bundesdatenschutzgesetz – BDSG), the data protection management system is designed to advise and monitor the requirements. Employees are sensitised to the careful handling of data (training) and are committed in writing to compliance with data protection requirements. For process-independent data protection requirements, such as the commissioning of service providers, central procedures must be observed. The same applies to the data protection rights of customers, shareholders and employees.

Compliance with applicable laws is a requirement for the permanently successful operations of the companies of the Talanx Group. The Talanx Group pays close attention to adapting its business and products to the legal, regulatory and tax law environment. The mechanisms installed for this purpose ensure that future legal developments and their effects on our business activities are identified and evaluated at an early stage so that we can make the necessary adjustments in good time.

Business performance

Insurance business as a whole

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	4,449	2,069	4,616	2,255
Premiums earned	4,522	2,110	4,573	2,223
Expenses for insurance claims	3,101	1,694	3,876	1,999
Expenses for insurance operations	898	518	901	528
Underwriting result for own account		-61		-290
In %				
Loss ratio*	68.6	80.3	84.8	89.9
Expense ratio**	19.9	24.6	19.7	23.7
Combined ratio***	88.4	104.9	104.5	113.6

** 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.*

As expected, the gross written premiums recorded by HDI Global SE decreased by EUR 167 million in the year under review to EUR 4,449 (4,616) million. This was attributable to targeted measures aimed at making the portfolio profitable, especially in the property and motor lines, the transfer of the speciality business to HDI Global Specialty SE as well as a decline in premiums in assumed US business due to the underwriting of local industrial insurance risks retained by the US subsidiaries.

Gross premiums for the financial year

EUR million, %		
Liability insurance	1,317	29.6
All-risk insurance	1,260	28.3
Marine and aviation insurance	455	10.2
Motor insurance	455	10.2
Engineering insurance	439	9.9
Fire insurance	201	4.5
Casualty insurance	118	2.7
Other insurance	204	4.6
Total	**4,449**	**100.0**

Net premiums earned decreased more sharply than gross premiums earned, falling by EUR 113 million to EUR 2,110 (2,223) million, largely due to higher reinstatement premiums and changes in ratios in the reinsurance business.

Following a previous year heavily burdened by major losses, gross claims expenses fell by EUR 775 million to EUR 3,101 (3,876) million in the year under review, principally as a consequence of the EUR 688 million reduction in expenses for losses in the financial year. In particular the restructuring in the fire insurance business contributed to the positive development in line with expectations. The run-off profit increased by EUR 88 million year-on-year to EUR 362 (274) million. As expected, the gross loss ratio decreased substantially by 16.2 percentage points to 68.6% (84.8%).

Due to the lower level of recovery, the aforementioned effects were less evident in the net expenses for claims, which declined by EUR 305 million to EUR 1,694 (1,999) million. Overall, the net loss ratio improved by 9.6 percentage points to 80.3% (89.9%).

As a consequence of growth in the international business, where higher commissions are paid, gross commission expenses increased noticeably by EUR 11 million to EUR 516 (505) million. Gross administrative expenses decreased more slowly than premiums earned, falling by EUR 13 million to EUR 382 (395) million. Overall, this led to an anticipated slight increase in the gross expense ratio of 0.2 percentage points to 19.9% (19.7%). This development was also observed on a net basis: Despite a EUR 10 million decline in net operating expenses to EUR 518 (528) million, the net expense ratio rose by 0.9 percentage points to 24.6% (23.7%) due to lower net premiums earned.

The combined ratio reflected the aforementioned effects and decreased as expected to 88.4% (104.5%) on a gross basis and 104.9% (113.6%) on a net basis.

Direct written insurance business

Liability Insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	1,016	489	976	562
Premiums earned	1,016	490	959	528
Expenses for insurance claims	785	468	690	419
Expenses for insurance operations	187	102	177	103
Underwriting result for own account		-20		-15
In %				
Loss ratio	77.3	95.6	72.0	79.3
Expense ratio	18.4	20.8	18.4	19.5
Combined ratio	95.7	116.4	90.4	98.8

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 40 million to EUR 1,016 (976) million. The reason for the increase is growth in Germany. Net written premiums fell by EUR 73 million year-on-year to EUR 489 (562) million due to increased payments to reinsurers, including higher reinstatement premiums, among other things.

Gross expenses for claims incurred rose by EUR 95 million to EUR 785 (690) million. This increase can be attributed primarily to higher run-offs in previous years of occurrence (“accident years”). While the loss ratio for the financial year fell slightly year-on-year to 70.8% (71.8%), the previous year’s loss ratio rose to 6.5% (0.1%) as a result of various run-offs.

Net expenses for insurance claims rose by EUR 49 million to EUR 468 (419) million. Analogous to the development of gross expenses, this was due to the increase in run-offs in the international business. In contrast, at EUR 404 (403) million, net claims expenses for the financial year remained stable at the previous year’s level. The net loss ratio increased by 16.3% to 95.6% (79.3%) in the financial year.

Expenses for insurance operations amounted to EUR 187 (177) million on a gross basis and EUR 102 (103) million on a net basis. At 18.4% (18.4%), the gross expense ratio remained exactly at the prior year’s level. Due to slightly lower reinsurance commissions, the net expense ratio increased to 20.8% (19.5%).

The combined ratio reflected the developments described above and was equal to 95.7% (90.4%) for the gross ratio and 116.4% (98.8%) for the net ratio.

The liability insurance line reported an underwriting result of EUR -20 (-15) million after a reversal of the equalisation reserve in the amount of EUR 60 million (with an allocation of EUR 22 million in the previous year).

Fire insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	Gross	Net
Premiums	196	75	210	88
Premiums earned	201	80	209	89
Expenses for insurance claims	184	49	269	116
Expenses for insurance operations	37	19	42	24
Underwriting result for own account		-28		-41
In %				
Loss ratio	91.9	61.5	128.8	129.9
Expense ratio	18.4	23.7	20.1	27.5
Combined ratio	110.3	85.2	148.9	157.4

Gross premium income from industrial fire and fire business interruption insurance decreased in the financial year to EUR 196 (210) million. The decrease in premiums could be largely attributed to restructuring activities during the financial year. Net premiums earned declined by EUR 9 million and were equal to EUR 80 (89) million.

Gross expenses for claims incurred declined by EUR 85 million to EUR 184 (269) million. Claims expenses for the financial year were reduced by EUR 166 million to EUR 135 million in the area of frequency losses as well as large losses. The run-off result showed a loss of EUR 50 million (previous year: a run-off profit of EUR 32 million), which can be attributed to an allocation to the reserve for a large loss. The gross loss ratio decreased by 36.9 percentage points to 91.9% (128.8%) due to the lower level of expenses in the financial year.

Net expenses for insurance claims decreased analogous to insurance claims on a gross basis, falling by EUR 67 million to EUR 49 (116) million. The net loss ratio fell accordingly by 68.4 percentage points to 61.5% (129.9%).

Gross expenses for insurance operations fell by EUR 5 million to EUR 37 (42) million. The gross expense ratio reflected a decrease to 18.4% (20.1%). The net expense ratio also declined by 3.8 percentage points to 23.7% (27.5%). The combined ratio reflected the development described above and decreased to 110.3% (148.9%) on a gross and to 85.2% (157.4%) on a net basis.

After an allocation of EUR 32 million to the equalisation reserve (compared with a withdrawal of EUR 17 million from the equalisation reserve in the previous year), the overall underwriting result for the financial year was a net loss of EUR -28 (-41) million.

Motor insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	Gross	Net
Premiums	424	394	461	438
Premiums earned	428	398	459	436
Expenses for insurance claims	357	339	376	363
Expenses for insurance operations	74	68	78	73
Underwriting result for own account		-22		-16
In %				
Loss ratio	83.3	85.2	81.8	83.3
Expense ratio	17.3	17.1	16.9	16.9
Combined ratio	100.6	102.3	98.7	100.2

Premium growth in previous years did not continue in 2019. Gross written premiums in the motor insurance line decreased by EUR 37 million to EUR 424 (461) million in the financial year. While gross written premiums at the foreign branches continued to climb to EUR 121 (104) million, gross written premiums in Germany decreased considerably by EUR 54 million to EUR 303 (357) million. This decrease is due to contract terminations that could not be compensated by new business and the agreement of additional premiums on the one hand and to further agreements newly entered into on the other hand based on a model of self-financed losses that has the effect of reducing premiums. The reduction in gross premiums earned was smaller with respect to additions and disposals due to different policy renewal dates; it fell by EUR 31 million to EUR 428 (459) million.

Net premiums earned decreased analogous to premiums earned on a gross basis by EUR 38 million to EUR 398 (436) million.

Gross expenses on insurance claims declined by EUR 19 million and were equal to EUR 357 (376) million. The smaller portfolio in the financial year was essential for the development, which was also reflected in claims expenses for the financial year that decreased by EUR 30 million to EUR 384 (414) million. Run-off profit decreased by EUR 10 million year-on-year to EUR 28 (38) million. The gross loss ratio of 83.3% (81.8%) exceeded the previous year’s level.

Parallel to the development on a gross basis, net expenses for insurance claims dropped to EUR 339 (363) million. The net loss ratio rose to 85.2% (83.3%).

Gross expenses for insurance operations decreased and were equal to EUR 74 (78) million. While gross administrative expenses decreased considerably to EUR 44 (48) million, the slight increase in commission expenses was driven in particular by portfolio growth at the foreign branches. The gross expense ratio thus rose to 17.3% (16.9%). At 17.1% (16.9%), the net expense ratio likewise exceeded the previous year’s ratio. The combined ratio reflected the aforementioned developments, rising to 100.6% (98.7%) on a gross basis and to 102.3% (100.2%) on a net basis.

After allocating EUR 12 (15) million to the equalisation reserve, the overall underwriting result for the financial year was a net loss of EUR -22 (-16) million.

Marine and aviation insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	342	248	326	231
Premiums earned	348	250	324	231
Expenses for insurance claims	254	203	215	160
Expenses for insurance operations	85	74	78	67
Underwriting result for own account		-21		-2
In %				
Loss ratio	73.1	81.0	66.4	69.2
Expense ratio	24.5	29.7	23.9	29.1
Combined ratio	97.6	110.6	90.3	98.3

Gross written premiums for marine and aviation insurance increased to EUR 342 (326) million in the financial year. The marine line recorded a clear increase in premiums of EUR 15 million in the period under review, resulting in particular from European foreign countries. The aviation line recorded a slight increase in premiums of EUR 1 million to EUR 17 million, in particular in the airport and general aviation business.

Gross expenses for claims incurred rose overall by EUR 39 million to EUR 254 (215) million.

While gross expenses for the financial year in the aviation insurance line increased by EUR 3 million, the run-off result contributed considerably to the positive performance with a profit of EUR 9 (4) million.

Gross loss expenses in the marine insurance line rose by EUR 43 million to EUR 254 (211) million. This was caused by an increase of EUR 318 (264) million in claims expenses for the financial year, which was attributable to the higher burden of claims in particular in the German automotive sector. An improvement was evident in the run-off profit of EUR 64 (53) million, which was characterised by developments in other European countries.

The gross loss ratio climbed by a total of 6.7 percentage points to 73.1% (66.4%).

Net expenses for insurance claims rose by EUR 43 million to EUR 203 (160) 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 insurance line, there is a quota share cession of 100% for the financial year. Net expenses for insurance claims in the aviation insurance line decreased by EUR 2 million to EUR -5 (-3) million due to a positive run-off result.

Overall, the net loss ratio increased to 81.0% (69.2%) due to the negative claims trend.

Gross expenses for insurance operations for the financial year just ended grew to EUR 85 (78) million. The expense ratios rose on a gross basis to 24.5% (23.9%) and on a net basis to 29.7% (29.1%). The combined ratio reflected the aforementioned developments, rising to 97.6% (90.3%) on a gross basis and to 110.6% (98.3%) on a net basis.

An underwriting result of EUR -21 (-2) million remained for the financial year after the withdrawal of EUR 9 million from the equalisation reserve (with an allocation of EUR 4 million in the previous year).

Engineering insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	321	173	308	160
Premiums earned	313	168	297	153
Expenses for insurance claims	276	127	255	124
Expenses for insurance operations	76	43	73	35
Underwriting result for own account		-2		-6
In %				
Loss ratio	88.1	75.6	85.9	81.4
Expense ratio	24.4	25.6	24.5	23.0
Combined ratio	112.5	101.2	110.4	104.4

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 rose year-on-year to EUR 321 (308) million, which can be attributed to premium growth in international markets. Net premiums earned amounted to EUR 168 (153) million.

Gross expenses on insurance claims for the financial year rose by EUR 21 million to EUR 276 (255) million. Claims expenses for the financial year increased by EUR 24 million to EUR 261 (237) million, driven by a large loss event in the installation insurance lines. In the same period there was a run-off loss of EUR 15 (18) million attributable to foreign business. The gross loss ratio climbed by 2.2 percentage points to 88.1% (85.9%).

Contrary to the gross trend, net expenses for insurance claims increased by only EUR 3 million to EUR 127 (124) million, which can be attributed to higher reinsurance relief in the financial year. Premium growth led to a 5.8 percentage point reduction in the net loss ratio to 75.6% (81.4%).

Expenses for insurance operations rose to EUR 76 (73) million on a gross basis and to EUR 43 (35) million on a net basis. Nevertheless, the gross expense ratio of 24.4% (24.5%) was at nearly the same level as in the previous year. The net expense ratio was 25.6% (23.0%). The combined ratio reflected the developments described above and was equal to 112.50% (110.4%) for the gross ratio and 101.2% (104.4%) for the net ratio.

For the financial year as a whole, the engineering insurance line was left with an underwriting result of EUR -2 (-6) million.

Casualty insurance

	2019	2019	2018	2018
EUR million	Gross	Net	Gross	Net
Premiums	110	97	144	105
Premiums earned	111	97	143	105
Expenses for insurance claims	89	86	95	90
Expenses for insurance operations	26	24	31	25
Underwriting result for own account		-3		5
In %				
Loss ratio	80.3	88.0	66.2	85.7
Expense ratio	23.0	24.1	21.9	23.5
Combined ratio	103.3	112.1	88.1	109.2

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 casualty insurance class, which is, in turn, driven by group casualty insurance.

In the financial year, the casualty insurance line recorded a decrease in gross written premiums by EUR 34 million to EUR 110 (144) million. This development was attributable primarily to international business, in particular to the loss of a major customer as well as, among other things, to contract terminations and business cessions to HDI Global Specialty SE. The decline in net premiums earned to EUR 97 (105) million was considerably smaller, as the loss of a major customer had less of an effect on net premiums.

Gross expenses on insurance claims fell to EUR 89 (95) million. The general accident class recorded a decline of EUR 10 million, which however was considerably less than the decline in gross premiums – among other things due to a higher burden of large losses in international markets – and consequently led to an increase in the gross loss ratio to 91.3% (76.9%) in this class. The clinical trials class recorded an increase of EUR 6 million, which was mainly due to the fact that higher run-off profits were realised in the previous year. Overall, the gross loss ratio rose by 14.1 percentage points to 80.3% (66.2%).

Net expenses on insurance claims fell to EUR 86 (90) million. The net claims trend essentially followed the gross trend. The net loss ratio climbed by 2.3 percentage points to 88.0% (85.7%).

Expenses for insurance operations decreased to EUR 26 (31) million on a gross basis, whereas they decreased to EUR 24 (25) million on a net basis. This is mainly due to the loss of a major customer. Both the gross expense ratio of 23.0% (21.9%) as well as the net expense ratio of 24.1% (23.5%) slightly exceeded the previous year's level. The combined ratio reflected the development described above, increasing to 103.3% (88.1%) on a gross and to 112.1% (109.2%) on a net basis.

After withdrawing EUR 10 (19) million from the equalisation reserve, the overall underwriting result for the financial year was a net loss of EUR -3 (5) million.

All-risk insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	617	137	590	152
Premiums earned	617	138	578	149
Expenses for insurance claims	491	145	726	261
Expenses for insurance operations	109	37	89	37
Underwriting result for own account		-46		-148
In %				
Loss ratio	79.6	104.9	125.6	175.3
Expense ratio	17.7	26.6	15.3	24.6
Combined ratio	97.3	131.5	140.9	199.9

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 27 million to EUR 617 (590) million. This development can be attributed mainly to restructuring activities. Net premiums earned fell slightly by EUR 11 million to EUR 138 (149) million.

Gross expenses on insurance claims for the financial year declined by EUR 235 million to EUR 491 (726) million. Gross claims expenses for the financial year decreased by EUR 254 million. Claims expenses were reduced in the area of frequency losses as well as large losses. As a result of these developments the gross loss ratio decreased by 46.0 percentage points to 79.6% (125.6%).

Net expenses for insurance claims fell by EUR 116 million to EUR 145 (261) million and were driven primarily by the decrease in net claims expenses. The net loss ratio decreased accordingly by 70.4 percentage points to 104.9% (175.3%).

Gross expenses for insurance operations for the financial year increased to EUR 109 (89) million. At EUR 37 million, net expenses for insurance operations were at the previous year’s level. The expense ratios rose on a gross basis to 17.7% (15.3%) and on a net basis to 26.6% (24.6%). The combined ratios reflected the developments described above and were recorded at 97.3% (140.9%) for the gross ratio and 131.5% (199.9%) for the net ratio.

In total, an underwriting result of EUR -46 (-148) million was reported for the all-risk insurance line.

Other insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	192	85	188	76
Premiums earned	193	85	187	78
Expenses for insurance claims	109	43	122	65
Expenses for insurance operations	47	23	46	23
Underwriting result for own account		19		2
In %				
Loss ratio	56.6	50.5	65.3	83.1
Expense ratio	24.4	26.4	24.9	29.6
Combined ratio	81.0	77.0	90.2	112.7

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, which span across insurance lines, as well as the legal protection, crisis management and cyber classes are included in the other insurance line.

On balance, gross written premiums in the other insurance line grew year-on-year to EUR 192 (188) million. A positive premium trend was observed in particular in the cyber insurance and in the other property insurance classes. Net premiums earned increased to EUR 85 (78) million analogous to the gross premium trend. As in the previous financial year, 100% of the legal protection business was ceded to HDI Reinsurance (Ireland) SE.

Gross expenses for insurance claims incurred decreased by a total of EUR 13 million to EUR 109 (122) million. This was attributable to the run-off profit, which rose by around 61% to EUR 29 (18) million and was realised primarily in the extended coverage (EC) and multi-risk insurance classes. The gross loss ratio fell by a total of 8.7 percentage points and was at 56.6% (65.3%).

Net expenses for claims incurred declined by EUR 22 million to a total of EUR 43 (65) million. As a result, the net loss ratio fell considerably by 32.6 percentage points to a total of 50.5% (83.1%).

Gross expenses for insurance operations rose year-on-year by EUR 1 million to EUR 47 (46) million. The gross expense ratio decreased to 24.4% (24.9%) due to the increase in premiums earned. At EUR 23 million, net expenses for insurance operations remained the same. The net expense ratio fell to 26.4% (29.6%) on a net basis. The combined ratios reflected the developments described above and were equal to 81.0% (90.2%) for the gross ratio and 77.0% (112.7%) for the net ratio.

Excluding changes in the equalisation reserve (with a withdrawal of EUR 11 million in the previous year), the classes of other insurance produced an underwriting result of EUR 19 (2) million overall.

Business accepted for reinsurance

Total

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	1,232	371	1,413	443
Premiums earned	1,296	402	1,417	454
Expenses for insurance claims	556	234	1,129	402
Expenses for insurance operations	257	129	287	140
Underwriting result for own account		61		-68
In %				
Loss ratio	42.9	58.1	79.7	88.4
Expense ratio	19.8	32.1	20.3	30.8
Combined ratio	62.7	90.2	100.0	119.2

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 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 1,232 (1,413) million. The major part of this total, or EUR 644 (761) million, was attributable to the all-risk insurance line (including business interruption), followed by liability at EUR 302 (336) million and engineering insurance lines at EUR 118 (139) million. The decrease in premiums in assumed business can be attributed mainly to the ongoing profitability measures of the portfolio as well as to the realignment of the US subsidiary's business model, which calls for a stronger 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. At EUR 402 (454) million, net premiums earned were likewise slightly lower than in the previous year.

Gross expenses on insurance claims for the financial year declined significantly by EUR 573 million to EUR 556 (1,129) million. In particular the restructuring in the property lines contributed to this positive development.

Claims expenses for the financial year decreased to EUR 886 (1,224) million. The decrease resulted in particular from a lower burden from large losses compared with the prior period. The previous year was strongly influenced by numerous loss events, in particular in the all-risk insurance line. In addition, a run-off profit of EUR 330 (95) million was reported that was clearly higher than in the prior period. The gross loss ratio fell considerably by 36.8 percentage points to 42.9% (79.7%) as a consequence of the lower burden of claims.

Net expenses for insurance claims fell by EUR 168 million and amounted to EUR 234 (402) million as a result of the lower burden of claims on a gross basis. The net loss ratio was 58.1% (88.4%).

Expenses for insurance operations decreased by EUR 30 million to EUR 257 (287) million. Whereas commission expenses declined by EUR 32 million to EUR 175 (207) million, a marginal increase in administrative expenses to EUR 82 (81) million was recorded. The gross expense ratio of 19.8% (20.3%) was therefore slightly lower than in the previous year. Net expenses decreased to EUR 129 (140) million. The moderate rise in administrative expenses in connection with the considerably lower net premiums earned led to an increase in the net expense ratio to 32.1% (30.8%). The combined ratio reflected the aforementioned developments, declining to 62.7% (100.0%) on a gross basis and to 90.2% (119.2%) on a net basis.

Overall, a clearly improved underwriting result of EUR 61 (-68) million was reported in the assumed business. As in the previous year, this includes a withdrawal of EUR 6 million from the equalisation reserve.

All-risk insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	644	148	761	187
Premiums earned	697	170	726	184
Expenses for insurance claims	203	134	464	178
Expenses for insurance operations	118	46	132	47
Underwriting result for own account		-6		-35
In %				
Loss ratio	29.1	79.1	63.9	96.5
Expense ratio	16.9	27.1	18.1	25.7
Combined ratio	46.0	106.2	82.0	122.2

Liability insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	302	127	336	129
Premiums earned	302	130	353	134
Expenses for insurance claims	78	36	292	96
Expenses for insurance operations	62	38	70	43
Underwriting result for own account		1		-12
In %				
Loss ratio	26.0	27.4	82.9	71.1
Expense ratio	20.5	29.5	19.8	31.9
Combined ratio	46.5	56.9	102.7	103.0

Engineering insurance

	2019	2019	2018	2018
EUR million	**Gross**	**Net**	**Gross**	**Net**
Premiums	118	38	139	44
Premiums earned	123	40	161	53
Expenses for insurance claims	136	22	292	72
Expenses for insurance operations	37	21	41	19
Underwriting result for own account		6		-33
In %				
Loss ratio	110.1	56.1	181.1	136.4
Expense ratio	30.3	51.4	25.7	36.1
Combined ratio	140.4	107.5	206.8	172.5

Branch office report

Branches as representative offices of HDI Global SE in foreign markets

HDI Global SE maintains branches in 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

	2019	2019	2018	2018
EUR million, number	**Gross prem.**	**Employees***	**Gross prem.**	**Employees***
Germany, Hannover	2,289	1,811	2,444	1,814
France, Paris	412	134	414	130
United Kingdom, London	319	104	266	104
The Netherlands, Rotterdam	299	293	317	260
Belgium, Brussels	228	91	226	87
Switzerland, Zurich	169	88	207	97
Spain, Madrid	133	85	144	87
Australia, Sydney	124	58	103	53
Italy, Milan	119	80	148	80
Japan, Tokyo	75	24	69	29
Canada, Toronto	67	22	54	20
Irland, Dublin	64	6	16	6
Greece, Athens	52	23	45	23
Singapore	45	21	45	17
China, Hong Kong	31	29	45	27
Denmark, Copenhagen	22	32	50	27
Malaysia, Labuan	2	0	2	0
Norway, Oslo	0	2	0	2
Bahrain, Manama	-1	0	21	7
Total	4,449	2,903	4,616	2,870

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

Key processes in individual branches

After considerably expanding its regional presence in recent years by opening regional offices in various countries, the branch in Manama, Bahrain, was closed last year for economic reasons. The site was already in the process of being liquidated at the end of 2018.

Significant changes in the gross premiums of individual branches
Gross premiums recorded in the UK and Irish branches rose by EUR 53 million to EUR 319 (266) million and by EUR 48 million to EUR 64 (16) million respectively, which can be attributed primarily to a new cooperation agreement.

Gross premiums recorded in the Dutch and Danish branches fell by EUR 18 million to EUR 299 (317) million and by EUR 28 million to EUR 22 (50) million respectively, primarily due to a transfer of business to HDI Global Specialty SE. The background for these transfers of business is the bundling of specialty business within the Talanx Group in HDI Global Specialty SE.

The development of the Swiss branch is influenced in particular by the loss of a major customer and contract terminations in the casualty line. Premiums at the branch decreased overall to EUR 169 (207) million.

At the Italian branch, various effects such as portfolio shifts within the Group, restructuring measures in the fire line and the loss of a major customer in motor insurance led to a reduction in gross premiums of EUR 29 million to EUR 119 (148) million.

Gross premium volume decreased to EUR 133 (144) million at the Spanish branch due to a profitability initiative.

In line with the general business strategy, additional branches were able to expand their portfolio by means of new acquisitions or through premium adjustments in the respective market. This applies in particular to the Australian and Canadian branches, which increased their premium volume to EUR 125 (102) million and EUR 67 (54) million respectively.

In the Hong Kong branch, a strategic reorientation in the Chinese market led to a reduction of the gross premiums to EUR 31 (45) million in the portfolio.

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 248 (297) million. This compares to current-year expenses in the amount of EUR 17 (19) million. The current result amounted to EUR 231 (278) million. The previous year's result was characterised by a non-recurring effect from the real estate portfolio. This and the persistent historically low level of interest rates in the eurozone led to further declines in income from fixed income securities. These declines in earnings cannot be fully compensated even through renewed portfolio optimisations that take appropriate risk into account. Earnings from net real estate and investment income in the 2019 financial year were lower than in the previous year, also due to the above-mentioned non-recurring effect in the previous year. The ordinary income of the financial year just ended was distributed from the EURO-RENT 3 Master special bond fund – HDI Global SE's largest specialised fund.

The average rate of return* was 3.1% (4.1%).

The result from profits and losses on the disposal of investments for the year under review were equal to EUR 13 (60) million. Profits in the amount of EUR 14 (61) million were offset by EUR 1 (1) million in losses from the disposal of registered bonds and fixed income bonds.

The cumulative balance of write-downs and reversals thereof amounts to EUR -20 (-69) million.

Overall, an extraordinary result in the amount of EUR -6 (-9) million contributed to the decrease in net income.

The accounting profit resulting from investments amounted to a total of EUR 225 (269) million and therefore exceeded the expectations. As expected, the total net return** for the reporting period reached 3.0% (3.9%).

** 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 result of other income/other expenses in the financial year was EUR -78 (-64) million. With regard to expenses, the miscellaneous expenses, among other things, from the allocation of costs increased by EUR 20 million to EUR 29 (9) million. On the other hand, income from services increased by EUR 6 million to EUR 35 (29) million. The net balance of exchange rate gains and losses for the financial year was a net gain of EUR 1 (a net loss of -6) million.

Comprehensive income of HDI Global SE

	2019	2018
EUR million		
Underwriting result for own account	-61	-290
Total investment income (incl. underwriting interest income)	224	268
Result from other income/other expenses	-78	-64
Result from ordinary activities	**85**	-86
Taxes	34	32
Profit/loss (-) transferred to Talanx AG	**51**	-118

As expected, a significant year-on-year increase in profits of EUR 51 (loss of 118) million was transferred to the parent company of HDI Global SE, Talanx AG, in the financial year based on the existing profit and loss transfer agreement.

Net assets and financial position

Investments

The volume of investments (excluding deposits retained) of HDI Global SE at the end of the year amounted to EUR 7,635 (7,060) 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 4,135 (4,105) million at the end of the year. This corresponded to a share of 54.0% (58.1%) of the total investments. Additional significant investment categories included bond funds at 16.9% (17.0%) as well as long-term equity investments and investments in affiliated companies at 21.5% (17.1%). Investments in fixed-interest securities included in particular bearer bonds with good credit ratings. The quality of the fixed-interest securities remained at the solid level strived for with an average rating of A compared with the prior year. The portfolio of bond funds was increased to EUR 1,289 (1,199) million through the reinvestment of a distribution from the special bond fund EURO-RENT 3 Master.

The real estate portfolio remained virtually unchanged from the previous year at EUR 174 (176) million.

The carrying amounts of investments in affiliates and other long-term equity investments increased in the period under review in particular due to the acquisition of HDI Reinsurance (Ireland) SE (EUR +269 million) and amounted to EUR 1,639 (1,204) 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 18 million to EUR 670 (652) 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.

Term deposits amounted to EUR 43 (69) million at the end of the year.

The market value of the investments as at the balance sheet date was equal to EUR 8,293 (7,466) 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 42 million to EUR 6,892 (6,850) million. This line item primarily includes provisions for unsettled insurance claims in the amount of EUR 5,675 (5,564) million.

HDI Global SE operates on an international scale and therefore recognises underwriting liabilities in foreign currencies. 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

We consider the course of business in the year under review to be satisfactory. The steps taken to make the fire business more profitable are already having a positive effect on the underwriting result, making it possible to realise a better result compared with the previous year. The expense ratio is at the previous year's level. We therefore remain one of the cost leaders in the industry segment. Nevertheless, the combined ratio of 104.9% is not yet in line with our goals; therefore, we continue to strive to increase our profitability. Net investment income made a positive contribution to net income despite the sustained phase of low interest rates. HDI Global SE's year-end 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.

Employees active in sales fulfil their legal obligation for further training in particular by participating in technical seminars geared towards specific lines of business as well as sales training courses.

Personnel deployment

The mobility of the employees remained very important also in 2019. 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. Bonuses are awarded and paid out quarterly to non-executive employees in the form of Spot on Awards as an incentive for special achievements.

Key employee indicators
In the reporting year, the annual headcount for HDI Global SE was 2,866 (2,878) employees. As in the previous year, the average age of employees was 45.1 years and their length of service was 16.2 (16.3) years. The part-time employment ratio was 15.6% (15.4%).

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 "Personnel and Social Report", "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 a full internal model to calculate risk capital for regulatory purposes. The addition of the Operational Risk category to the previous partial internal model was approved by BaFin in September 2019. The time horizon considered in the internal 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 reserve 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 reserve 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 (‘IBNR’).

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	
2019	80.3
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

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 %	
2019	4.1
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

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, among others, 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 351.5 million. This represents 48.5% of gross receivables. Over the past three years, HDI Global SE was required to write-off an average of 0.8% (0.9%) 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	150.9	28.1
A	217.3	40.4
BBB	0.7	0.1
NON	168.7	31.4
of which captives	*39.4*	
Total	**537.6**	**100.0**

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

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

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

Credit risk is managed by means of a system of rating classes under the special investment guidelines. Credit risk related to mortgages and land charges as well as real estate 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 international 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 the asset manager's 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%	-39.6
Fixed-interest securities and other loans	
Rise in yield +100 basis points	-243.7
Decline in yield -100 basis points	+252.8

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	2,970	54.7
Registered bonds/ Promissory note loans	895	16.5
Fixed income funds	1,289	23.7
Loans	278	5.1
Total	**5,432**	**100.0**
Rating AAA	1,665	30.6
Rating AA	963	17.7
Rating A	1,177	21.7
Rating BBB	1,401	25.8
Rating < BBB	14	0.3
n. r.	212	3.9
Total	**5,432**	**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 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.

The Withdrawal Agreement negotiated between the EU and the UK ("Brexit deal") was adopted by the House of Commons of the United Kingdom on 20 December 2019. The United Kingdom's membership in the European Union ended on 31 January 2020. Practically nothing has changed in this respect, as a transitional period has begun that ends on 31 December 2020, which can be extended at the end of the year if an agreement has not been reached. There could be a major disruption in economic trade between the UK and the EU in the unlikely event that the orderly Brexit process breaks down at any of the last remaining hurdles. HDI Global SE's branch is still in the process of applying for an authorisation for a third-country branch. However, given the current situation, the authorisation will not be given before the end of the transitional period. On the contrary, it is to be expected that applications from newly established risk carriers will be given priority after the Brexit deadline. During the transitional period, the branch will continue to operate under EU laws that remain in force. All in all, no significant risks for the underwriting business, investments or capitalisation of HDI Global SE have been identified at this time as a result of Brexit.

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

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

Overall summary of the risk position
On balance, there are presently no known risks that could jeopardise the continued existence of HDI Global SE. The Company fulfils the solvency requirements. The Company will publish the specific ratios in April 2020 in the Solvency and Financial Condition Report (SFCR) for the year ended 31 December 2019.

The audit does not cover the determination of the solvency capital requirement (SCR) or the determination of regulatory capital, the entire Solvency and Financial Condition Report (SFCR) in accordance with section 40 of the Insurance Supervision Act (Versicherungsaufsichtsgesetz; VAG) or other reports to the supervisory authorities and the internal models.

Report on expected developments and on opportunities

Economic climate
For 2020 we anticipate a moderate acceleration of global growth overall. For the first half of 2020, we expect weaker growth, but we assume that growth momentum will be higher in the further course of the year. The outbreak of the corona virus is likely to delay this recovery. However, we expect only a temporary negative growth effect.

The easing of monetary policy, combined with the improvement in the business climate, is increasingly taking full effect. However, we believe that economic risks remain high and could cause volatility over the course of the year.

Following weak growth in the eurozone in the year under review, we expect the situation to stabilise at a low level. The gradually more expansionary fiscal policy is also supporting growth. Political risks such as the still unresolved Brexit and the development in Italy are likely to continue to represent factors of high uncertainty in 2020. In addition, there are new imponderables such as the consequences of the corona virus.

In the USA, we anticipate continued growth. In particular, the preliminary agreement reached in the trade dispute with China and the interest rate cuts by the US Federal Reserve in the year under review support this growth outlook. However, a high potential for trade policy conflict and the presidential elections in November represent key political risks for 2020.

The emerging markets are likely to benefit more than most from the stabilisation of world trade as well as from globally loose monetary policy, moderate inflation rates and lower oil prices. The slowdown in economic growth in China continues. Following the signing of a provisional trade agreement with the USA and due to the current and planned growth-supporting measures, we expect only a moderate decline in growth momentum.

Capital markets
A persistently uncertain geopolitical environment accompanied by only very moderately improving growth prospects leaves little room for the fantasy of an interest rate hike. The stable fundamental environment for companies, supported by the ECB's continued expansionary central bank policy and a resumed bond purchase programme, which for the time being is not limited in time, also leads to expectations of – at a minimum –stable development for spread products. However, the probability of short-term setbacks is high following the very positive development on the capital markets in the previous year.

We see moderate upside potential for equities in 2020. Among other things, economic stabilisation and an expansive monetary policy, together with good returns on equities in a low interest environment, are likely to remain key price drivers.

International insurance markets
In international property/casualty insurance, we expect an increase in premium income for 2020 at the level of the year under review. For the developed insurance markets, we assume that growth momentum will slow somewhat; in contrast, we anticipate a slight upturn in emerging markets. Profitability is expected to remain stable in 2020, which will require a high degree of underwriting discipline as interest rates remain low.

For the developed European insurance markets, we assume that premium income in 2020 will be at the level of the year under review, while in the USA the trend is expected to decline slightly. We anticipate that premium growth will pick up in Central and Eastern Europe and even more so in Latin America. The emerging markets of Asia are likely to exhibit the strongest growth again in the coming year, with China leading the way.

In the international life insurance markets, we anticipate a slight improvement in the developed insurance markets and a considerable increase in real premium growth in the emerging markets. However, profitability remains under pressure given the persistently low interest rate environment.

In Central and Eastern Europe, we expect premium growth to decline overall in 2020, whereas in Latin America we anticipate increasing growth rates. The trend in Asia is likely to hold steady at a high level or even increase slightly.

German insurance industry
Despite the positive development of the insurance industry in the year 2019, the macroeconomic environment continues to be characterised by economic risk factors. As such, forecasts are generally subject to reservations. Following the economic downturn in recent months and assuming that the macroeconomic environment does not significantly deteriorate in 2020, the insurance industry should achieve a slightly increasing premium volume in 2020 compared to the prior year according to an assessment by the German Insurance

Association (Gesamtverband der Deutschen Versicherungswirtschaft e.V.; GDV).

In property/casualty insurance, we expect premium income in Germany to continue to rise in 2020, albeit at a slightly lower rate than in the year under review. Due to the rising demand for natural hazard coverage we expect that the premium increases will be most pronounced in insurance for residential properties.

HDI Global SE

For the 2020 financial year, we expect a further improvement in the underwriting result thanks to the continued profitability of certain lines of business and a sustained normalisation of the large loss situation.

The "HDI Global 4.0" programme was initiated in the year under review with a focused two-stage approach consisting of a Perform phase and a Transform phase. The Perform phase already began in the previous year with the "20/20/20" restructuring initiative in the fire business. The "20/20/20" programme aims to realise a risk-free additional premium of at least 20% for fire risks, which constitute around 20% of our net portfolio in the Industrial Lines segment, and consequently to realise underwriting profits again by 2020. In addition, the focus is on selective growth, digitisation and cultural change in the Industrial Lines Division and "HDI Global 4.0" is expected to improve profitability and reduce volatility overall.

We expect gross written premiums to decline overall in the 2020 financial year. This is attributable to further portfolio transfers of specialty business to HDI Global Specialty SE, ongoing profitability measures and increased underwriting of local industrial insurance risks retained by the US subsidiaries.

We continue to regard the industrial insurance market in Germany as challenging due to the fragmented market situation and intensified competition. In contrast, we see growth opportunities in international markets. However, we do not expect this to fully compensate for the aforementioned decline in premiums.

Due to the sustained positive portfolio development we assume that claims expenses will decrease disproportionately more than gross premiums and therefore expect the gross loss ratio to improve.

The capacity for innovation and a focus on service is becoming increasingly important in the insurance industry. We are carrying out numerous projects in order to shape the digital transformation as well as to harmonise and optimise the process and IT landscape worldwide. Despite the correspondingly necessary investments, we expect the gross expense ratio to remain constant.

We anticipate the combined ratio to improve overall, including on a net basis, as a result of the better gross loss ratio and steady gross expense ratio.

In our opinion, the distortions on the capital markets and the low interest rate level will continue in the following year, which will affect the return on our new investments. Therefore, we see opportunities in particular in alternative investments. For example, we invest in real estate, private equity and infrastructure to partially offset the decline in returns. Nevertheless, we expect a slight decrease in current returns on investments and an investment result below the level of 2019. Due to the aforementioned developments, we expect HDI Global SE's net income/net loss to grow moderately compared with 2019, which can be attributed in particular to a clearly improved loss experience.

Opportunities arising from changes in the framework conditions

Climate change

The average temperature on earth is rising with the increasing emission of greenhouse gases. As a result, extreme weather events are becoming more frequent, which significantly increases the volume of losses from natural disasters and leads the Company as an insurer to expect increasing demand for insurance solutions to cover risks from natural disasters. This applies both to the primary insurance sector and to reinsurance. We have both highly developed risk models for estimating risks from natural disasters and extensive expertise in risk management. This puts the Company in a position to offer its customers tailor-made insurance solutions to cover existential risks.

If demand for insurance in this regard rises faster than expected, it could have a positive effect on premium growth and earnings and lead to forecasts being exceeded.

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. We see an opportunity to make Germany an even better place to do business by reorganising the energy system, which can become an important provider of stimulus for innovation and technological progress. As an industrial insurer, we are 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 supported 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 more than currently expected from sales opportunities due to the energy transition, premium growth and profitability 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. Digitalisation fundamentally changes business processes and models by means of new technologies (e.g. machine learning, cloud technologies). These developments are highly relevant in particular for the competitiveness of insurance companies. New possibilities arise in the communication with customers, the processing of insurance claims, the evaluation of data and the development of new business fields. In the year under review, we fundamentally revised our digitalisation strategy and sharpened it along the four dimensions of system landscape, infrastructure, agile working methods and governance with a view to the overarching corporate strategy. With the one.BIZ programme, which was launched back in 2015, we already laid important foundations for the modernisation and optimisation of our IT system landscape and technical processes in recent years. In line with the corporate strategy, the project will be even more focused on supporting the improvement of underwriting results in the future. Last but not least, the programme serves as a transformation vehicle that will promote the introduction of agile methods and working practices as well as the associated cultural change beyond the boundaries of the project. In this way, we are able to significantly accelerate the development of our IT systems, consistently align them with the requirements of our users and customers and increase the satisfaction of our employees. The digitalisation strategy and the “one.BIZ” programme are therefore important foundations for our Company’s course of profitability and growth that help us to leverage business potential and generate competitive advantages.

If the digitalisation projects should be implemented and adopted more quickly by the customers than currently expected, the premium trend and profitability 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 profitability 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, we can look back on a tradition of over one hundred years. By focusing on the core HDI brand within the Talanx Group, we see opportunities both to develop a stronger common identity internally as well as to increase visibility vis-à-vis our customers and speak with one voice.

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 profitability 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, we developed the product Cyber+ with which the various risks can be covered comprehensively in one insurance solution. The 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. Further market opportunities are likewise seen in the continuous expansion of the insurance business in local markets abroad as well as in international programmes.

Despite the challenges, as a traditional and experienced industrial insurer we have the necessary expertise as well as the corresponding processes and working methods, etc., to take advantage of our opportunities and to press ahead down our path of profitability.

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 profitability 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 2019. 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 1,942 in the 2018 calendar year, of which 839 women and 1,103 men. Compared with the previous year, the share of female employees increased by 1.9%. The average number of full-time employees was 1,634, of which 568 women and 1,067 men. Compared with the previous year, the share of female employees increased by 0.9%. The average number of part-time employees was 307, of which 271 women and 36 men. Compared with the previous year, the share of female part-time employees increased by 3.8%.

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,
cyber 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,
marine 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 2019

Assets			**31.12.2019**	**31.12.2018**
EUR thousand				
A. Intangible fixed assets				
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets			8,257	13,513
B. Investments				
I. Land, land rights and buildings, including buildings on third-party land		173,696		175,740
II. Investments in affiliated companies and other equity investments		1,916,957		1,402,216
III. Other investments		5,543,997		5,482,023
IV. Deposits retained by ceding companies on busniess accepted for reinsurance		17,893		61,346
			7,652,543	**7,121,325**
C. Receivables				
I. Receivables arising from direct written insurance business, due from:				
1. Policy holders	340,248			394,022
2. Intermediaries	375,824			347,572
		716,072		741,594
II. Receivables on reinsurance business of which due to affiliated companies: EUR 64,134 (75,803) thousand		532,848		542,682
III. Other receivables of which due to affiliated companies: EUR 110,972 (201,913) thousand		542,534		596,820
			1,791,454	**1,881,096**
D. Other assets				
I. Tangible fixed assets and inventories		9,078		9,855
II. Cash at banks, cheques and cash-in-hand		417,342		373,723
			426,420	**383,578**
E. Accrued or deferred items				
I. Deferred rent and interest income		53,354		59,603
II. Other prepaid expenses		2,402		1,921
			55,756	**61,524**
F. Excess of plan assets over post-employment benefit liability			0	15
Total assets			**9,934,430**	**9,461,051**

Equity and liabilities			**31.12.2019**	**31.12.2018**
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	934,349			986,307
2. less: share for business ceded for reinsurance	447,859			469,547
		486,490		**516,760**
II. Provision for outstanding claims				
1. Gross amount	11,311,641			11,226,589
2. less: share for business ceded for reinsurance	5,636,302			5,662,745
		5,675,339		**5,563,844**
III. Provision for profit-related and non-profit-related premium refunds				
1. Gross amount	14,247			32,371
2. less: share for business ceded for reinsurance	1,869			18,183
		12,378		**14,188**
IV. Equalisation reserve and similar provisions		676,962		718,451
V. Other underwriting provisions				
1. Gross amount	53,055			46,216
2. less: share for business ceded for reinsurance	11,943			9,603
		41,112		**36,613**
			6,892,281	**6,849,856**
D. Other provisions				
I. Provisions for pensions and similar obligations		463,229		444,485
II. Provisions for taxes		41,810		49,381
III. Other provisions		78,342		66,500
			583,381	**560,366**
E. Deposits retained on reinsurance ceded			141,870	79,693
F. Other liabilities				
I. Liabilities from direct written insurance business due to:				
1. Policy holders	98,830			105,373
2. Intermediaries	168,066			128,668
		266,896		**234,041**
II. Payables on reinsurance business of which due to affiliated companies: EUR 70,791 (96,869) thousand		635,505		653,875
III. Other liabilities of which taxes: EUR 51,585 (50,880) thousand of which social security: EUR 1,210 (1,298) thousand of which due to affiliated companies: EUR 410,189 (20,065) thousand		805,879		474,203
			1,708,280	**1,362,119**
G. Deferred and accrued items			2,082	2,481
Total equity and liabilities			**9,934,430**	**9,461,051**

The annuity provision recognised on the balance sheet as at the close of the 2019 financial year under equity and liabilities C.II. is equal to EUR 44,117,692.77. It is confirmed that the provision for outstanding pension claims shown on the balance sheet under line C.II. has been calculated i 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, 30 January 2020 The Responsible Actuary Thomas Adrian Schmidt

Income statement for the period from 1 January to 31 December 2019

I. Underwriting account			2019	2018
EUR thousand				
1. Premiums earned for own account				
a) Gross written premiums	4,449,315			4,616,257
b) Premiums ceded to reinsurance	2,379,922			2,361,141
		2,069,393		**2,255,116**
c) Change to the gross premium reserve unearned	72,267			-43,381
d) Adjustment of reinsurers' share in gross premiums unearned	31,676			-11,456
		40,591		**-31,925**
			2,109,984	**2,223,191**
2. Underwriting interest income for own account			380	350
3. Other underwriting income for own account			2,793	3,038
4. Expenses on insurance claims for own account				
a) Claims payments				
aa) Gross amount	3,131,740			2,853,854
bb) Reinsurers' share	1,496,161			1,272,993
		1,635,579		**1,580,861**
b) Changes to the provision for outstanding claims				
aa) Gross amount	-31,086			1,022,051
bb) Reinsurers' share	-89,469			603,603
		58,383		**418,448**
			1,693,962	**1,999,309**
5. Change to other net underwriting provisions			4,002	-6,184
6. Expenses for profit-related and non-profit related premium refunds for own account			6,391	8,478
7. Expenses for insurance operations for own account				
a) Gross expenses for insurance operations		898,439		900,619
b) less: commissions and profit commissions received for business ceded to reinsurance		380,011		372,737
			518,428	**527,882**
8. Other underwriting expenses for own account			-6,964	-853
9. Subtotal			**-102,662**	**-302,053**
10. Changes to equalisation reserve and similar provisions			41,488	12,329
11. Underwriting result for own account			**-61,174**	**-289,724**

II. Non-underwriting account			**2019**	**2018**
EUR thousand				
1. Investment income				
a) Income from long-term equity investments of which from affiliated companies: EUR 61,551 (108,736) thousand	70,310			120,425
b) Income from other investments of which from affiliated companies: EUR 6,681 (4,219) thousand				
ba) Income from land, land rights and buildings, including buildings on third-party land	12,982			15,891
bb) Income from other investments	137,179			140,346
c) Income from reversal of write-downs	41			456
d) Gains on disposal of investments	14,650			61,014
e) Income from profits received under profit pooling, profit-or-loss transfer, or partial profit transfer agreements	27,944			19,782
		263,106		**357,914**
2. Investment expenses				
a) Investment management expenses, interest expenses and other expenses related to capital investments	13,209			14,564
b) Write-downs of investments	23,699			73,696
c) Losses on disposal of investments	1,345			832
d) Cost of loss absorption	13			2
		38,266		**89,094**
		224,840		**268,820**
3. Underwriting interest income		380		350
			224,460	**268,470**
4. Other income		62,946		57,133
5. Other expenses		141,407		121,295
			-78,461	**-64,162**
6. Result from ordinary activities			**84,825**	**-85,416**
7. Extraordinary expenses		9		10
8. Extraordinary result			**-9**	**-10**
9. Taxes on income		16,631		28,477
10. Other taxes		17,578		3,977
			34,209	**32,454**
11. Loss transfer		–		117,880
12. Profit transferred on the basis of profit pooling, profit-and-loss-transfer, or partial profit transfer agreements		50,607		–
			-50,607	**117,880**
13. 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 2019 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 income approach (“Ertragswertverfahren”) 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 estate. 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

Stocks, shares, or investment fund units and other floating rate 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), provided that they are accounted for based on the principles governing current assets. 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 securities acquired above or below par, the difference was amortised over the term using the effective interest method.

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 was 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. In case of a negative market value, provisions for anticipated losses from pending transactions would be recognised.

Options were valued separately. The costs represent the upper value limits. Provisions for anticipated 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 anticipated losses from pending transactions would be recognised. There were no open forward exchange contracts as of 31 December 2019.

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 nominal 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 3 to 20 years. Low-value items up to EUR 250 are immediately recognised as operating expenses. Low-value items costing between EUR 250 and EUR 800 are capitalised 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).

Deferred taxes

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.

Tax rates

	2019
In %	
Australia, Sydney	30.0
France, Paris/Japan, Tokyo	28.0
Canada, Toronto	26.8
Belgium, Brussels/Norway, Oslo/Spain, Madrid	25.0
Greece, Athens/Italy, Milan	24.0
Denmark, Copenhagen	22.0
The Netherlands, Rotterdam	21.7
Switzerland, Zurich	21.3
United Kingdom, London	17.0
Singapore (onshore/offshore)	17.0/10.0
China, Hong Kong	16.5
Ireland, Dublin	12.5
Malaysia, Labuan	0.0

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 individual 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 annuity provision calculated in accordance with section 65 VAG (Versicherungsaufsichtsgesetz; German Insurance Supervisory Act) and the provision for anticipated claims 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.

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 projected unit credit method. The adjustment of benefits with respect to commitments under deferred compensation as a result of future expected participation in surplus assets 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.

The securities-linked employee-financed commitments are exclusively pension commitments covered by fully matched benefit reinsurance, which are measured in accordance with section 253(1) sentence 3 HGB. For these commitments, the settlement amount therefore corresponds to at least the fair value of the plan assets of the life insurance agreement plus surplus participation.

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 0.63% (0.87%) 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 1.97% (2.32%).

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.

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 each currency, the foreign currency liabilities are combined with the foreign currency assets matching them in hedging relationships in accordance with section 254 HGB (portfolio hedges), whereby the items allocated to the hedging relationships are primarily non-current assets, underwriting provisions and non-current liabilities. Foreign currencies are generally translated regardless of the restrictions of the historical cost convention and the realisation principle.

If there is a surplus for a particular currency, it is examined whether is is sustainable or not. Sustainable surpluses are combined with currency forwards in separate hedging relationships in accordance with section 254 HGB and are generally translated independent of the restrictions of the historical cost convention and the realisation principle. In the reporting period, there were sustainable surpluses exclusively in the Canadian dollar.

The gross hedge presentation method is applied to the effective portion of the hedging relationships.

Temporary surpluses and deficits are generally translated immediately through profit or loss. The remaining assets and liabilities outside of the aforementioned hedging relationships per currency have a remaining term of less than one year and are therefore measured in compliance with section 256a HGB.

Assets

Changes to assets A. and B. I. to B. III in the 2019 financial year

			Balance sheet amounts for the prior year	Additions
EUR thousand				
A.	Intangible fixed assets			
	I.	Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	13,513	156
B. I.	Land, land rights and buildings, including buildings on third-party land		175,740	1,661
B. II.	Investments in affiliated companies and long-term equity investments			
	1.	Shares in affiliated companies	1,027,528	641,465
	2.	Loans to affiliated companies	184,681	175,024
	3.	Long-term equity investments	176,295	22,124
	4.	Loans to other long-term investees and investors	13,712	–
		Total B. II.	**1,402,216**	**838,613**
B. III.	Other investments			
	1.	Shares, shares in investment funds and other non-fixed interest securities	1,506,720	151,925
	2.	Bearer bonds and other fixed interest securities	2,888,473	876,369
	3.	Mortgages, land charges and annuity land charges	428	–
	4.	Other loans		
		a) Registered bonds	777,569	9,616
		b) Promissory notes and loans	240,227	8,711
	5.	Deposits with financial institutions	68,606	–
		Total B. III.	**5,482,023**	**1,046,621**
Total			**7,073,492**	**1,887,051**

Disposals	Reversal of write-downs	Exchange rate fluctuations	Amortisation, depreciation and write-downs	Balance sheet values for the financial year	Market values 31.12.2019
0	–	26	5,438	**8,257**	**n/a**
–	–	–	3,705	**173,696**	**218,138**
213,219	–	4,852	17,500	**1,443,126**	**1,775,303**
101,529	–	5,665	–	**263,841**	**267,075**
1,605	–	335	1,324	**195,825**	**197,577**
–	–	453	–	**14,165**	**14,165**
316,353	**–**	**11,305**	**18,824**	**1,916,957**	**2,254,120**
14,809	–	1,928	553	**1,645,211**	**1,745,803**
853,027	40	48,925	617	**2,960,163**	**3,071,695**
6	–	–	–	**422**	**478**
93,899	–	507	–	**693,793**	**747,192**
48,771	–	1,525	–	**201,692**	**213,250**
27,961	–	2,071	–	**42,716**	**42,671**
1,038,473	**40**	**54,956**	**1,170**	**5,543,997**	**5,821,089**
1,354,826	**40**	**66,287**	**29,137**	**7,642,907**	**8,293,347**

B. Investments

Disclosures pursuant to section 52 no. 1a RechVersV

The carrying amount of the Company's own land used in the context of its operations remained unchanged from the previous year at EUR 759 thousand.

Disclosures pursuant to section 55(7) RechVersV

The fair values were determined on the basis of internal and external expert opinions from 2019. The fair value as at 31 December 2019 is EUR 218,138 million.

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

	Carrying amounts 31.12.2019	Market values 31.12.2019
EUR thousand		
Shares in affiliated companies	3,876	3,817
Shares, shares in investment funds and other non-fixed interest securities	148,755	143,050
Bearer bonds and other fixed interest securities	479,997	472,055
Total	**632,628**	**618,922**

A write-down in the amount of EUR 13,647 (38,942) thousand was avoided by means of dedication as fixed assets in accordance with section 341b(2) HGB.

In the opinion of the Company, the omitted write-downs are temporary impairments.

Hedge accounting in accordance with section 254 HGB (section 285 no. 23 HGB)

Type of hedge	Hedged item	Hedging transaction	Nature of the risks	Amount of risks hedged
Portfolio-Hedge	Foreign currency liabilities As of the balance sheet date, hedging relationships in the total amount of EUR 1,388 million were recognised and broken down to the following major currencies: US dollar EUR 560 million United Kingdom pounds sterling EUR 283 million Swiss franc EUR 204 million Canadian dollar EUR 188 million Australian dollar EUR 57 million	Foreign currency assets	Foreign currency risk	Currency result from the hedged foreign currency liabilities; Recognition of effective changes in the value of hedged items and hedging transactions based on the application of the gross hedge presentation method in the balance sheet and income statement
Portfolio-Hedge	Variable securities portfolio (sustained surplus in foreign currency assets)	Hedging is carried out by means of currency forwards (sale of Canadian dollars against the purchase of euros)	Foreign currency risk	Currency result from the hedged foreign currency assets; Recognition of effective changes in the value of hedged items and hedging transactions based on the application of the gross hedge presentation method in the balance sheet and income statement

Disclosures pursuant to section 277(3) HGB

Write-downs were recognised on fixed assets in the financial year in the amount of EUR 19,378 (68,937) thousand.

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

The line item B.III.1. Shares, interests or shares in investment funds and other floating rate securities includes the funds listed below in which our Company holds an interest of more than 10%. There are no restrictions with respect to the daily surrender option.

	Balance sheet values 31.12.2019	Market values 31.12.2019	Distribution 2019
EUR thousand			
Fixed income funds			
EURO-RENT 3 Master	1,027,394	1,093,169	17,200
CS Lux AgnaNola Global Convertible Bond Fund	39,960	40,770	20
BlueBay Emerging Mrkt. Inv. Grade Corp. Bond FD. I	31,963	33,444	1,537
Deutsche Invest I Emerging Markets Opportunities	30,255	32,788	522
Fisch CB - Global Defensive BQ2	25,038	26,587	19
Ampega CrossoverPlus Rentenfonds I (a)	3,500	3,865	80
Subtotal Fixed income funds	**1,158,110**	**1,230,623**	**19,378**
Mixed funds			
HDI Globale Equities	157,836	179,218	5,469
HDI Global SE Absolute Return	106,166	101,922	1,143
Subtotal Mixed funds	**264,002**	**281,140**	**6,612**
Total	**1,422,112**	**1,511,763**	**25,990**

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 4,429,332 (4,289,037) thousand as fixed assets. EUR 1,645,209 (1,506,718) thousand of this amount can be attributed to shares, shares in investment funds and other floating rate securities and EUR 2,784,123 (2,782,319) 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]	24.71	EUR	17,961	-4,668
Credit Suisse (Lux) Gas Transit Switzerland SCS, Luxembourg[3]	16.31	EUR	128,707	4,846
Extremus Versicherungs-Aktiengesellschaft, Cologne[4]	13.00	EUR	63,940	2,700
Funderburk Lighthouse Limited, Grand Cayman[5]	100.00	USD	47,584	9,371
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne[5]	100.00	EUR	490,544	57,575
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne[5]	100.00	EUR	200,716	18,516
HDI-Gerling Verzekeringen N.V., Rotterdam[5]	100.00	EUR	87,603	-1,752
HDI Global Insurance Limited Liability Company, Moscow[5]	100.00	RUB	585,422	39,192
HDI Global Network AG, Hannover[5]	100.00	EUR	211,564	–[7]
HDI Global Network AG Escritório de Representaçao no Brasil Ltda, São Paulo[5]	100.00	BRL	324	9
HDI Global Seguros S.A., São Paulo[5]	100.00	BRL	62,947	5,942
HDI Global Specialty Holding GmbH, Hannover[5]	100.00	EUR	75	–[7]
HDI Reinsurance (Ireland) SE, Dublin[5]	100.00	EUR	215,992	34,747
HDI Risk Consulting GmbH, Hannover[5]	100.00	EUR	1,626	–[7]
IVEC Institutional Venture and Equity Capital GmbH, Cologne[5]	23.80	EUR	30,252	-3,369
Magma HDI General Insurance Ltd., Kolkata[6]	22.61	INR	2,306,272	-275,393
Petro Vietnam Insurance Holdings, Hanoi[5]	53.92	VND	6,491,935,385	521,465,631
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover[5]	50.00	EUR	147,025	5,482

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

2) Carrying amounts as at 30 September 2018.

3) Carrying amounts as at 30 June 2019.

4) Carrying amounts as at 31 December 2017.

5) Carrying amounts as at 31 December 2018.

6) Carrying amounts as at 31 March 2018.

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

C. III. Other receivables

EUR thousand	31.12.2019	31.12.2018
Claims payments/Co-insurance/Share of losses attributable to other companies	368,210	310,210
Receivables from affiliated companies	108,983	197,129
Receivables from tax authorities	20,012	26,358
Receivables due to timing differences in accounting entries	15,281	17,990
Payments not yet assigned	9,091	18,960
Receivables from the sale of renewal rights	3,955	8,627
Receivables for incidental expenses incurred in connection with property	3,087	3,579
Costs posted after the cost accounts are closed	1,391	996
Receivables from security deposits, sureties and loan collaterals	1,198	1,808
Receivables from insurance pools	1,123	0
Receivables from the sale of Oslo Fjord	1,069	1,069
Miscellaneous	9,134	10,094
Total	**542,534**	**596,820**

Receivables from affiliated companies comprise EUR 44,051 (48,736) thousand in other receivables from investment income. In addition, these also include receivables from HDI Global Network AG in the amount of EUR 27,040 (19,385) thousand and from HDI Risk Consulting GmbH in the amount of EUR 904 (397) thousand from the transfer of profits. In addition, there were receivables in the amount of EUR 117,880 thousand in the previous year from the assumption of losses by Talanx AG.

Receivables from the sale of renewal rights to affiliated companies amount to EUR 1,989 (4,784) thousand.

Costs posted after the closing of the cost accounts (2 December 2019) 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 5,027 (8,366) thousand.

D. I. Tangible fixed assets and inventories

EUR thousand	2019	2018
Balance as at the start of the financial year	9,855	10,497
Additions	2,394	2,679
Transfers	0	-538
Disposals	1,921	1,317
Amortisation, depreciation and write-downs	1,354	1,514
Exchange rate fluctuations	104	48
Balance as at the end of the financial year	**9,078**	**9,855**

E. I. Deferred rent and interest income

Only income from interest was accrued in the amount of EUR 53,354 (59,603) thousand.

E. II. Other prepaid expenses

Other prepaid expenses in the amount of EUR 2,402 (1,921) 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

	31.12.2019	**31.12.2018**
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

	31.12.2019	31.12.2018
EUR thousand		
Direct written insurance business		
Casualty insurance	232,354	244,237
Liability insurance	5,317,625	5,149,658
Motor third-party liability insurance	735,281	704,791
Other motor insurance	170,914	140,028
Fire and property insurance	1,325,396	1,151,540
of which:		
a) Fire insurance	471,877	409,442
b) Engineering insurance	787,055	676,926
c) Other property insurance	66,464	65,172
Marine and aviation insurance	548,762	554,662
Legal protection insurance	84,837	88,626
All-risk insurance	1,015,010	987,772
Other insurance	146,365	137,076
Total	**9,576,544**	**9,158,390**
Business accepted for reinsurance	3,413,710	3,851,544
Total insurance business	**12,990,254**	**13,009,934**

Of which:

a) Gross provision for outstanding claims: 11,311,641 (11,226,589) TEUR

b) Equalisation reserve and similar provisions: 676,962 (718,451) TEUR

C. II. 1. Gross provision for outstanding claims

	31.12.2019	31.12.2018
EUR thousand		
Direct written insurance business		
Casualty insurance	194,576	176,480
Liability insurance	4,943,968	4,718,735
Motor third-party liability insurance	698,739	653,445
Other motor insurance	69,786	63,448
Fire and property insurance	1,044,236	912,075
of which:		
a) Fire insurance	389,447	355,996
b) Engineering insurance	598,217	501,455
c) Other property insurance	56,572	54,624
Marine and aviation insurance	487,221	479,591
Legal protection insurance	81,189	84,968
All-risk insurance	887,273	865,235
Other insurance	131,654	122,463
Total	**8,538,642**	**8,076,440**
Business accepted for reinsurance	2,772,999	3,150,149
Total insurance business	**11,311,641**	**11,226,589**

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

This item amounts to EUR 14,247 (32,371) million and, as in the previous year, relates exclusively to non-performance-related premium refunds.

C. IV. Equalisation reserve and similar provisions

	31.12.2019	**31.12.2018**
EUR thousand		
Direct written insurance business		
Casualty insurance	–	9,772
Liability insurance	141,583	201,829
Motor third-party liability insurance	10,927	21,854
Other motor insurance	89,272	65,984
Fire and property insurance	51,877	20,246
of which:		
a) Fire insurance	51,877	20,246
Marine and aviation insurance	30,487	39,855
Other insurance	682	598
Total	**324,828**	**360,138**
Business accepted for reinsurance	352,134	358,313
Total insurance business	**676,962**	**718,451**

D. I. Provision for pensions and similar obligations

	2019	2018
EUR thousand		
Balance as at the start of the financial year	444,485	424,640
Change	-18,730	-18,558
Accrued interest / interest rate change	33,355	35,753
Pension plan reinsurance assets eligible for netting	4,119	2,650
Balance as at the end of the financial year	463,229	444,485

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. In Germany, the presumed trend was 2.50% for salary increases and 1.74% for pension increases as in the previous year. The provisions for pensions were discounted using an interest rate of 2.71% (3.21%) and assuming a remaining term of 15 years. The discount rate applied in the measurement of pension obligations at the UK branch is 3.78% (4.31%). Salary increases were factored into the calculation at 2.40% (2.70%) and pension increases at 3.40% (3.50%).

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 2019 was EUR 508,467 (484,709) thousand. The fund held to cover this amount was accounted for at fair value of EUR 46,661 (41,571) 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 42,279 (40,374) thousand.

The settlement amount for the employee-funded provision for pensions was EUR 9,875 (10,770) thousand. Nettable plan assets totalling EUR 8,452 (9,438) thousand represent pension liability insurance claims offset in the amount of EUR 8,451 (9,422) 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 3,760 thousand was netted with expenses from the unwinding of the discount on provisions for pension obligations in the amount of EUR 7,403 thousand in the reporting period.

The difference in accordance with section 253(6) sentence 1 amounts to EUR 52,314 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

	31.12.2019	**31.12.2018**
EUR thousand		
Remuneration payable	35,535	28,794
Consulting costs	11,830	9,662
Vacation claims and credit balances in flextime accounts	7,098	6,706
Partial retirement	6,107	5,847
Costs for the preparation of the annual financial statements	3,369	3,103
Anniversary bonuses	2,042	2,190
Administrative expenses of foreign branch offices	2,329	2,100
Provisions for costs	1,662	1,716
Pension fund	1,128	1,120
Outstanding invoices for building-related expenses	1,946	990
Berufsgenossenschaft (Employers´ Liability Association)	463	486
Litigation expenses	703	279
Miscellaneous	4,130	3,507
Total	**78,342**	**66,500**

The settlement amount of the provision of partial retirement was equal to EUR 11,695 (11,202) thousand. The fund held to cover this amount was accounted for at fair value in the amount of EUR 5,587 (5,354) thousand. The cost of the fund amounted to EUR 5,487 (5,425) thousand.

F. IV. Other liabilities

	Term < 1 year 31.12.2019	Term < 1 year 31.12.2018	Term > 1 year 31.12.2019	Term > 1 year 31.12.2018	Total 31.12.2019	Total 31.12.2018
EUR thousand						
Liabilities to affiliated companies	410,189	20,065	–	–	410,189	20,065
Liabilities from non-group lead business	208,925	236,005	94,464	123,219	303,389	359,224
Liabilities due to tax authorities	51,585	50,880	–	–	51,585	50,880
Liabilities not yet attributed	27,795	27,180	1,076	2,098	28,871	29,278
Trade payables	5,224	4,712	6	20	5,230	4,732
Liabilities to social security institutions	1,210	1,298	–	–	1,210	1,298
Liabilities from the investing activities based on claim payments	467	841	–	–	467	841
Liability from the acquisition of corporate bonds	444	444	–	–	444	444
Miscellaneous	4,494	6,912	0	529	4,494	7,441
Total	**710,333**	**348,337**	**95,546**	**125,866**	**805,879**	**474,203**

The increase in other liabilities to affiliated companies of EUR 390,125 thousand to EUR 410,189 (20,065) thousand can be attributed to a higher balance vis-à-vis the parent company Talanx AG, resulting among other things from the acquisition of HDI Reinsurance (Ireland) SE (EUR 268,700 thousand) as well as from the transfer of profit for the financial year (EUR 50,607 thousand).

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

G. Deferred income

EUR 1,569 (1,323) thousand in deferred income in the amount of EUR 2,082 (2,481) thousand relates to management commissions collected for the subsequent year.

Income statement

I. 1. a) Gross written premiums

	2019	2018
EUR thousand		
Direct written insurance business		
Casualty insurance	109,991	143,774
Liability insurance	1,015,945	975,926
Motor third-party liability insurance	263,888	300,312
Other motor insurance	160,288	161,016
Fire and property insurance	582,750	584,982
of which:		
a) Fire insurance	196,443	209,952
b) Engineering insurance	320,763	307,746
c) Other property insurance	65,544	67,284
Marine and aviation insurance	341,906	326,338
All-risk insurance	616,541	589,678
Legal protection insurance	26,634	23,849
Other insurance	99,729	97,343
Total	**3,217,672**	**3,203,218**
Business accepted for reinsurance	1,231,643	1,413,039
Total insurance business	**4,449,315**	**4,616,257**

Origin of gross written premiums for the direct written insurance business

	2019	2018
EUR thousand		
In Germany	1,547,633	1,562,624
Other member states of the European Community as well as other treaty states of the Agreement Creating the European Economic Area	1,320,783	1,278,809
Third countries	349,256	361,785
Total	**3,217,672**	**3,203,218**

I. 1. Gross premiums earned

	2019	2018
EUR thousand		
Direct written insurance business		
Casualty insurance	111,006	143,424
Liability insurance	1,016,014	958,910
Motor third-party liability insurance	268,352	298,598
Other motor insurance	159,513	160,593
Fire and property insurance	579,502	571,478
of which:		
a) Fire insurance	200,564	208,506
b) Engineering insurance	312,883	296,907
c) Other property insurance	66,055	66,065
Marine and aviation insurance	347,851	324,487
All-risk insurance	616,625	577,893
Legal protection insurance	26,576	23,730
Other insurance	100,241	96,973
Total	**3,225,680**	**3,156,086**
Business accepted for reinsurance	1,295,902	1,416,790
Total insurance business	**4,521,582**	**4,572,876**

I. 1. Net premiums earned

	2019	2018
EUR thousand		
Direct written insurance business		
Casualty insurance	97,419	104,808
Liability insurance	489,926	528,191
Motor third-party liability insurance	249,923	283,803
Other motor insurance	148,363	151,718
Fire and property insurance	279,090	270,177
of which:		
a) Fire insurance	79,916	89,191
b) Engineering insurance	168,272	152,695
c) Other property insurance	30,902	28,291
Marine and aviation insurance	250,199	231,217
All-risk insurance	138,264	148,681
Legal protection insurance	-504	-50
Other insurance	54,839	50,175
Total	**1,707,519**	**1,768,720**
Business accepted for reinsurance	402,465	454,471
Total insurance business	**2,109,984**	**2,223,191**

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

	2019	2018
EUR thousand		
Direct written insurance business		
Casualty insurance	89,087	94,902
Liability insurance	784,918	690,050
Motor third-party liability insurance	236,384	254,486
Other motor insurance	120,144	121,225
Fire and property insurance	495,525	562,441
of which:		
a) Fire insurance	184,227	268,644
b) Engineering insurance	275,778	254,941
c) Other property insurance	35,520	38,856
Marine and aviation insurance	254,442	215,465
All-risk insurance	490,562	725,593
Legal protection insurance	16,000	20,318
Other insurance	57,640	62,746
Total	**2,544,702**	**2,747,226**
Business accepted for reinsurance	555,952	1,128,679
Total insurance business	**3,100,654**	**3,875,905**

I. 7. a) Gross expenses for insurance operations

	2019	2018
EUR thousand		
Direct written insurance business		
Casualty insurance	25,573	31,475
Liability insurance	187,322	176,878
Motor third-party liability insurance	45,442	47,998
Other motor insurance	28,584	29,577
Fire and property insurance	125,118	126,908
of which:		
a) Fire insurance	36,947	41,943
b) Engineering insurance	76,443	72,813
c) Other property insurance	11,728	12,153
Marine and aviation insurance	85,093	77,612
All-risk insurance	109,345	88,592
Legal protection insurance	5,900	5,662
Other insurance	29,351	28,652
Total	**641,728**	**613,354**
Business accepted for reinsurance	256,711	287,265
Total insurance business	**898,439**	**900,619**

Of the gross expenses for insurance operations for the financial year, EUR 126,116 (116,236) thousand are attributable to acquisition expenses and EUR 772,323 (784,382) thousand are attributable to general and administrative expenses.

Reinsurance balance

	2019	2018
EUR thousand		
Direct written insurance business		
Casualty insurance	-8,185	-26,651
Liability insurance	-123,963	-85,959
Motor third-party liability insurance	-5,227	-6,831
Other motor insurance	-1,277	156
Fire and property insurance	57,634	60,820
of which:		
a) Fire insurance	32,438	50,963
b) Engineering insurance	37,308	24,094
c) Other property insurance	-12,112	-14,237
Marine and aviation insurance	-34,911	-27,526
All-risk insurance	-60,277	87,801
Legal protection insurance	-3,966	-709
Other insurance	-1,043	-13,397
Total	**-181,215**	**-12,296**
Business accepted for reinsurance	-443,680	-88,056
Total insurance business	**-624,895**	**-100,352**

– = 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 274 (257) million for non-cash reinstatement premiums. This breaks down into EUR 240 (213) million for the direct written insurance business and EUR 34 (44) million for the business accepted for reinsurance.

I. 11. Underwriting result for own account

EUR thousand	2019	2018
Direct written insurance business		
Casualty insurance	-2,957	4,790
Liability insurance	-19,959	-15,199
Motor third-party liability insurance	-8,035	-739
Other motor insurance	-13,853	-15,719
Fire and property insurance	-23,286	-44,980
of which:		
a) Fire insurance	-28,256	-40,694
b) Engineering insurance	-1,776	-5,559
c) Other property insurance	6,746	1,273
Marine and aviation insurance	-21,255	-1,838
All-risk insurance	-45,639	-148,375
Legal protection insurance	711	8,014
Other insurance	11,669	-7,571
Total	**-122,604**	**-221,617**
Business accepted for reinsurance	61,430	-68,107
Total insurance business	**-61,174**	**-289,724**

Run-off result for own account

In the financial year, HDI Global SE realised a run-off profit in the amount of EUR 231,639 (259,204) thousand. The information on the run-off results for the individual lines of business are discussed in the management report under Results of operations.

Commissions and other compensation for insurance agents, personnel expense

EUR thousand	2019	2018
Commissions of any kind for insurance agents within the meaning of section 92 HGB for direct written insurance business	341,106	298,343
Wages and salaries	237,813	224,772
Social insurance contributions and expenses for benefits	37,597	36,021
Expenses for retirement benefits	13,463	16,335
Total expenses	**629,979**	**575,471**

Number of insurance contracts with a minimum term of one year

	2019	2018
Number		
Direct written insurance business		
Casualty insurance	62,094	57,666
Liability insurance	239,691	179,492
Motor insurance	629,333	674,558
Fire and property insurance	84,277	79,265
of which:		
a) Fire insurance	24,300	25,496
b) Engineering insurance	53,423	46,213
c) Other property insurance	6,554	7,556
Marine and aviation insurance	73,541	45,432
All-risk insurance	125,618	93,677
Legal protection insurance	30,745	13,407
Other insurance	39,280	41,061
Total	**1,284,579**	**1,184,558**

II. 4. Other income

	2019	2018
EUR thousand		
Income from services rendered	35,244	28,712
Currency exchange gains	8,297	4,847
Income from reversal of specific and global valuation allowances	6,985	7,385
Income from the derecognition of liabilities	5,573	1,390
Income from the sale of renewal rights	2,649	4,740
Interest and similar income	2,112	6,711
Income from the reversal of other provisions	572	914
Miscellaneous	1,514	2,434
Total	**62,946**	**57,133**

II. 5. Other expenses

	2019	2018
EUR thousand		
Additions to the interest portion of the provision for pensions	32,806	35,297
Other expenses from cost allocation	28,680	8,491
Expenses for services	24,542	23,953
Expenses for the Company as a whole	18,909	10,901
Interest expense	14,744	15,261
Write-downs of receivables	7,582	5,784
Currency exchange losses	6,908	11,271
Amortisation and write-downs of intangible fixed assets	5,065	7,841
Miscellaneous	2,171	2,496
Total	**141,407**	**121,295**

Interest expenses include expenses for the unwinding of the discount in the amount of EUR 65 (245) 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.

II. 9. Taxes on income

Taxes on income amount to EUR 16,631 (28,477) thousand. These are essentially the actual taxes for the financial year as well as taxes for prior assessment periods of the foreign branches in the amount of EUR 18,148 thousand. Income from German income tax amounts to EUR 1,516 thousand and mainly relates to prior assessment periods.

II. 10. Other taxes

The line item Other taxes relates in the amount of EUR 4,475 thousand to expenses on the part of the foreign branches and in the amount of EUR 13,103 thousand to German expenses from other taxes (of which EUR 289 thousand can be attributed to property taxes and EUR 12,438 thousand to insurance and fire protection taxes), resulting in an expense from other taxes in the amount of EUR 17,578 thousand.

Other disclosures

Employees

	2019	2018
Number (average)		
Full-time employees	2,423	2,436
Part-time employees	443	442
Total	**2,866**	**2,878**

Employee share programme
In September 2019, the parent company Talanx AG launched an employee share programme under which the employees of HDI Global SE were each offered a maximum of 36 shares for subscription. The shares were issued to the employees in November. The exercise price was based on the lowest daily price on the Frankfurt and Hannover stock exchanges on 30 September 2019, less a discount of EUR 10 per share, and amounted to EUR 29.24. A total of 27,443 shares were acquired. The transaction resulted in personnel expenses of EUR 274 thousand. The shares issued are subject to a vesting period ending on 25 November 2021.

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 22 and 23 of this report.

Remuneration for the members of governing bodies and advisory boards
Remuneration for the members of the Board of Management totalled EUR 6,939 (4,218) thousand. Total remuneration for the Supervisory Board was equal to EUR 69 (74) thousand and remuneration for the Advisory Board totalled EUR 644 (566) thousand. The remuneration of former Board of Management members and their survivors totalled EUR 6,175 (7,238) thousand. A total of EUR 64,490 (61,436) 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. In addition, there are control and profit and loss transfer agreements between HDI Global SE as the controlling company and HDI Risk Consulting GmbH, HDI Global Network AG and – since 1 January 2019 – HDI Global Specialty Holding GmbH, as the controlled companies.

In light of the transfer of the shares of HDI Global Specialty Underwriting Agency GmbH (formerly: HDI Global Underwriting Agency GmbH and before that: Nassau Assekuranzkontor GmbH) and HDI Global Specialty 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 Specialty Underwriting Agency GmbH and HDI Global Specialty 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).

Credit lines granted

The subsidiary HDI Global Network AG was extended a credit line under a loan agreement in the amount of CAD 460,000 thousand with a term ending on 1 October 2024. HDI Global Network AG had drawn down a loan of CAD 182,000 thousand from this amount as at the balance sheet date.

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 359,010 (324,668) thousand as at the balance sheet date in order to provide collateral for underwriting liabilities to 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 349,496 (330,574) thousand as at the balance sheet date. In addition, there are further assets with a carrying amount of EUR 167,497 (97,067) thousand that are pledged, transferred as collateral or deposited, resulting in a total value of EUR 516,993 (427,641) 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 67,396 (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 liabilities 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 4,773 (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 1,707 (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 amounting to EUR 10,680 (8,025) thousand consist primarily of guarantee credits and bank guarantees. Letters of credit in effect with various banks total EUR 545,510 (559,646) thousand. In addition, as in the previous year 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

	31.12.2019	31.12.2018
EUR thousand		
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne	89,740	34,490
Aegon AM Dutch Mortage Fund 2	63,000	0
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne	22,623	47,868
Caplantic AIF, SICAV-SIF S.C.Sp. – Caplantic Infrastructure I Sub-Fund	16,211	16,211
Ares Senior Direct Lending Parallel Fund (U) LP	9,604	13,099
BlackRock European Middle Market Debt II SCSp	8,452	0
AG DL III Offshore Unlevered LP	6,368	12,117
Currenta TermLoan FRN	5,789	0
Barings European Private Loan Fund II (unlevered)	5,444	0
UBS Clean Energy Infrastructure Switzerland 2, KmGK, Basle	5,372	6,251
Muzinich Pan-European Private Debt I, SCSp	4,755	8,087
Ares Capital Europe IV (E) Unlevered	4,743	8,387
EQT Credit II (No. 1) Limited Partnership	4,516	4,462
BlueBay Senior Loan Fund I (A) SLP	4,129	5,653
Monroe Capital Private Credit Fund III LP	4,025	12,444
Crown European Private Debt II S.C.Sp.	3,000	3,000
Five Arrows Direct Lending SCSp	2,765	5,986
Ares Capital Europe II (E), L.P.	1,520	1,520
NDR Citygate Bremen (Nachrang)	0	1,500
Borkum Riffgrund 2 Investor Holding GmbH	0	1,159
Total	**262,056**	**182,234**

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

Other contractual obligations to Aurelis Asset GmbH, Eschborn, remain unchanged from the previous year at 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 2019. The reporting packages prepared on a quarterly basis in accordance with IFRS are subjected to a review. In addition, assurance engagements were carried out in the reporting period based on the International Standard on Assurance Engagements (ISAE) 3000. Furthermore, specific issues related to HDI Global SE's equity were closely examined and tax consultant services were rendered at the Rotterdam branch in the Netherlands.

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 in conjunction with section 290 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 341i HGB in conjunction with 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
There were no known 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, 19 February 2020

The Board of Management

Dr. Edgar Puls

Yves Betz	Frank Harting	David Hullin
Clemens Jungsthöfel	Dr. Thomas Kuhnt	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 2019, and the statement of profit and loss for the financial year from 1 January to 31 December 2019 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 from1 January to 31 December 2019. 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 requirements 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 2019 and of its financial performance for the financial year from 1 January to 31 December 2019 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 2019. 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 7,652.5 million (77.0% 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 reserves”) are reported in the gross amount of EUR 11,311.6 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 ensure 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 business 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 11 March 2019. We were engaged by the supervisory board on 3 June 2019. We have been the auditor of the HDI Global SE, Hannover without interruption since the financial year 2019.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional 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, 5 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Florian Möller	pp. Janna Brüning
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This is a translation of the original German text; the German version takes precedence in case of any discrepancies in the translation.

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Konzernstruktur
Group structure

Talanx AG

Geschäftsbereich Industrieversicherung
Industrial Lines Division

- HDI Global SE
- HDI Global Specialty SE
- HDI Versicherung AG (Austria)
- HDI Global Seguros S.A. (Brazil)
- HDI Global Seguros S.A. (Mexico)
- HDI Global Insurance Limited Liability Company (Russia)
- HDI Global SA Ltd. (South Africa)
- HDI Global Insurance Company (USA)
- HDI Global Network AG
- HDI Reinsurance (Ireland) SE

Geschäftsbereich Privat- und Firmenversicherung Deutschland
Retail Germany Division

- HDI Deutschland AG

Schaden/Unfallversicherung
Property/Casualty Insurance

- HDI Versicherung AG
- Lifestyle Protection AG
- neue leben Unfallversicherung AG
- PB Versicherung AG
- TARGO Versicherung AG

Lebensversicherung
Life Insurance

- 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

- Hannover Rück SE
- E+S Rückversicherung AG

Schaden-Rückversicherung
Property/Casualty Reinsurance

- Hannover ReTakaful B.S.C. (c) (Bahrain)
- Hannover Re (Bermuda) Ltd.
- Hannover Reinsurance Africa Limited

Personen-Rückversicherung
Life/Health Reinsurance

- 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

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 31.12.2019

400-GB206

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