Annual Financial Statements

2018

HDI Global Specialty SE

Contents

This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

Management Report

The joint initiative of Hannover Rück SE and HDI Global SE to reorganise the worldwide specialty business within the Talanx Group led to the scheduled renaming of International Insurance Company of Hannover SE to HDI Global Specialty SE as of 1 January 2019. Moreover, HDI Global SE acquired 50.2% of the shares of HDI Global Specialty SE ("HGS", "the Company") from Hannover Rück SE with the approval of BaFin. The control and profit and loss transfer agreement with Hannover Rück SE was terminated at the end of 31 December 2018. In the course of reorganising our business we also sold our interest in Inter Hannover (No. 1) Limited to Hannover Rück SE in the financial year.

Bundling of the insurance of special risks brings together our cross-business segment expertise in the specialty field at one point within the Talanx Group and enables us to focus on a tailored insurance cover in profitable and high-growth market segments.

Under the Talanx umbrella, 50.2% of the shares in HDI Global Specialty SE are held by HDI Global SE, a globally acting industrial insurer, and 49.8% by Hannover Rück SE, the fourth largest reinsurer of the world. The Company offers tailored insurance solution in the agency and specialty primary insurance business. We mainly write our business through brokers and underwriting agencies. In line with its strategy, HGS cedes large portions of the insurance business within the Talanx Group. The Company is licensed by the German Federal Financial Supervisory Authority ("BaFin") to conduct business in all lines of property and casualty insurance as well as reinsurance in Germany and by way of freedom to provide services within the European Union. Moreover, HGS writes insurance business through its branches in Australia, United Kingdom, Italy, Canada and Sweden. As a company registered with the National Association of Insurers Commissioners (NAIC), the Company operates as an excess and surplus lines provider in the US market.

Our strategy is integrated into the overall corporate strategy of the Talanx Group and supports its objectives of sustained profitable growth and long-term value enhancement. Our business activities focus on being the best option for our business partners when choosing an insurance partner. That is why we focus on the customer and his concerns.

The continuing slow progress of the negotiations between the EU and United Kingdom as a result of the Brexit vote of the British population is causing uncertainty. The impacts on our branch in London, United Kingdom, cannot yet be conclusively assessed. We have taken precautions to be able to continue our business, which we conduct under the freedom of establishment, without interruption even after United Kingdom will have left the EU.

Business Development

The 2018 financial year continued to be characterised by a difficult market environment and persistently high competition. Although rates in many markets remain at a low level, we were able to profit from rising rates in individual segments and seize opportunities for a profitable insurance business overall. We continued our risk-adequate and selective underwriting policy and consistently disposed of business that did not meet our requirements. Fortunately, we were able to clearly increase the premium income compared with the previous year.

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

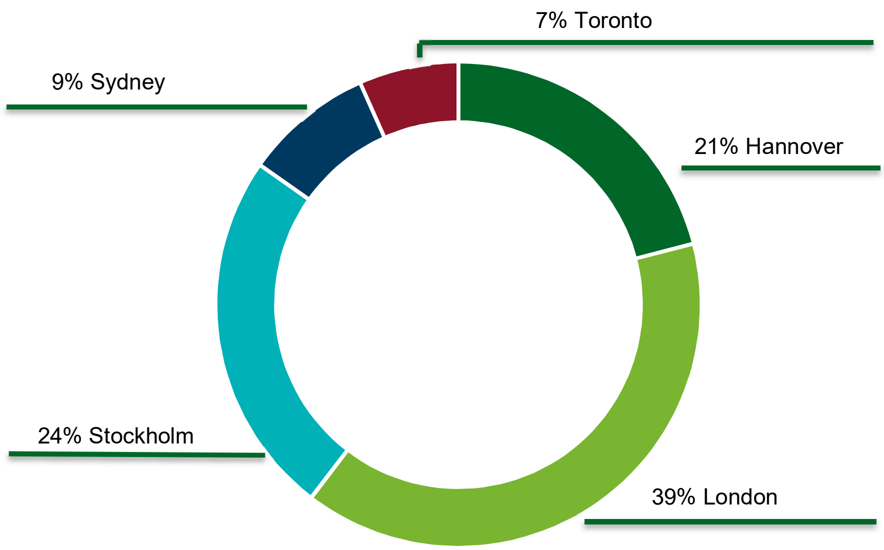
Currency (1 EUR =)	31 December 2018	31 December 2017
Australian dollar	1.62081	1.53474
British pound	0.90279	0.88752
Canadian dollar	1.55910	1.50474
Norwegian krone	9.99120	9.83480
Swedish krone	10.27690	9.83870
US dollar	1.14510	1.19940

The gross premium volume in the financial year amounts to EUR 946.8 million and, at 13.9%, is clearly above the level of the previous year (EUR 831.3 million). The direct insurance business with EUR 850.5 million (previous year: EUR 763.0 million) continued to account for the major portion. To complement our business, we have also assumed a small volume of reinsurance business. For the assumed reinsurance business we recorded gross premiums amounting to EUR 96.2 million (previous year: EUR 68.3 million).

As a result of a disproportionate increase in business conducted from Germany, the share of the international branches fell to 79.1% (previous year: 82.2%). This corresponds to a premium volume of EUR 748.4 million (previous year: EUR 683.3 million). Despite the marked expansion of the business written in Germany, the branches continue to significantly contribute to gross premium income, underlining the international orientation of the Company.

In the year under review, we wrote premiums of EUR 373.3 million (previous year: EUR 368.1 million) via the branch in London. We took advantage of new business opportunities and also further expanded our business with existing customers. On the other hand, we consistently divested business that did not meet our expectations. As expected, the overall premium volume remained almost constant. The Stockholm branch recorded gross premiums of EUR 230.9 million (previous year: EUR 198.5 million) in the 2018 financial year and, hence, was able to further expand its market position despite intense competition. We were able to significantly expand our business at the Hannover location and recorded gross premiums of EUR 198.3 million (previous year: EUR 148.0 million). The development at the Sydney location was particularly pleasing, where we were able to significantly increase the written gross premium from EUR 62.3 million to EUR 81.4 million, partially due to new business relationships, but also due to the development of existing business relationships. After a short consolidation phase in Canada, we were able to increase the written gross premiums at our branch in Toronto to EUR 62.9 million (previous year: EUR 54.4 million).

Gross premium by branches



In line with our strategy, we ceded a large part of our business to the Hannover Re Group in the year under review again. In addition, we also use external reinsurance to a minor extent to optimally manage our risks. With gross premiums earned of EUR 895.6 million (previous year: EUR 798.4 million), premiums earned for own account amount to EUR 78.9 million (previous year: EUR 65.4 million).

Due to a lower burden from major loss events, our balance sheet loss ratio (gross) improved compared with the previous year and amounts to 65.6% (previous year: 69.6.%). Accordingly, the gross expenses for insurance claims amount to EUR 587.6 million (previous year: EUR 555.8 million).

The gross expenses for insurance operations reflect the persistently fierce competition and amount to EUR 275.3 million (previous year: EUR 233.7 million) or 30.7% (previous year: 29.3%).

The combined ratio (gross) is 96.4% (previous year: 98.9%).

In accordance with statutory regulations, we allocated an amount of EUR 12.3 million (previous year: EUR 3.6 million) to the equalisation reserve and similar provisions. To the extent necessary, we supplemented the observation period on which the calculation of the claims equalisation reserve is based, by the loss ratios from the BaFin tables published for the insurance industry. Therefore, the balance sheet value of the equalisation reserve and similar provisions amounts to EUR 22.5 million (previous year: EUR 10.2 million).

Due to the high allocations to the equalisation reserve, we achieved an underwriting result for own account of EUR -4.5 million (previous year: EUR 6.6 million) in the financial year.

At the time of preparation of the management report, the economic situation of HDI Global Specialty SE continued to be positive.

Below, we explain the development of the financial year in our insurance lines. Unless stated otherwise, we comment on the gross business development and show the underwriting result for own account. In our comments we make a distinction between the direct written insurance business and the assumed reinsurance business and have therefore adjusted the previous year's figures accordingly.

Direct written insurance business

Liability

in million EUR	2018	2017
Gross premiums written	279.6	233.9
Loss ratio (%)	53.5	67.1
Underwriting result (for own account)	0.8	2.8

The premium volume in **liability insurance** amounts to EUR 279.6 million (previous year: EUR 233.9 million). With a premium volume of about one third of our premium income in direct written business, this line of business again represented a major business segment in the year under review. The loss ratio in the financial year was 53.5% and, hence, about 14 percentage points below the loss ratio of 67.1% in the previous year. After changes in the equalisation reserve, the underwriting result for own account amounted to EUR 0.8 million (previous year: EUR 2.8 million).

Casualty

in million EUR	2018	2017
Gross premiums written	12.2	8.1
Loss ratio (%)	19.3	28.6
Underwriting result (for own account)	0.8	0.7

In **casualty insurance**, we were able to clearly increase the gross premiums from EUR 8.1 million to EUR 12.2 million. The loss ratio has further improved and is now 19.3% after we were able to achieve a loss ratio of 28.6% in the previous year. Overall, the underwriting result for own account amounted to EUR 0.8 million (previous year: EUR 0.7 million).

Motor vehicle

in million EUR	2018	2017
Gross premiums written	129.8	110.2
Loss ratio (%)	64.1	74.7
Underwriting result (for own account)	-7.0	-4.9

In the **motor vehicle insurance**, the gross premiums amount to EUR 129.8 million (previous year: EUR 110.2 million). With a loss ratio of 64.1% (previous year: 74.7%) and an allocation to the equalisation reserve of EUR 11.4 million, we achieved a loss of EUR 7.0 million (previous year: loss of EUR 4.9 million).

Fire and property insurance

in million EUR	2018	2017
Gross premiums written	257.0	249.0
Loss ratio (%)	78.2	77.5
Underwriting result (for own account)	1.5	2.7

With a gross premium income of EUR 257.0 million (previous year: EUR 249.0 million), the **fire and property insurance** made a major contribution to our total premium income with almost one third of our premium income in direct written insurance business. The loss ratio remained almost constant at 78.2% in the year under review, after we had achieved a loss ratio of 77.5% in the previous year. After changes in the equalisation reserve in the financial year, the underwriting result for own account amounts to EUR 1.5 million (previous year: EUR 2.7 million).

Marine and aviation insurance

in million EUR	2018	2017
Gross premiums written	88.7	93.4
Loss ratio (%)	46.3	56.6
Underwriting result (for own account)	1.2	1.7

The gross premium volume in the **marine and aviation insurance** further decreased in the year under review from EUR 93.4 million to EUR 88.7 million. This line continued to be characterised by an intensely competitive environment in the financial year. On the other hand, the loss ratio has substantially improved and is now 46.3% (previous year: 56.6%). The underwriting result for own account, taking into account the equalisation reserve, amounts to EUR 1.2 million (previous year: EUR 1.7 million).

Credit and collateral insurance

in million EUR	2018	2017
Gross premiums written	29.6	18.2
Loss ratio (%)	25.4	9.2
Underwriting result (for own account)	-0.8	3.4

The **credit and collateral insurance** shows gross premiums written of EUR 29.6 million (previous year: EUR 18.2 million), so that we were able to increase the overall premium income by about 62%. The loss ratio increased from 9.2% to 25.4% and thus remains at a pleasing level. Overall, the underwriting result for own account amounts to EUR -0.8 million (previous year: EUR 3.4 million) after changes in the equalisation reserve.

Legal protection insurance

in million EUR	2018	2017
Gross premiums written	31.6	12.1
Loss ratio (%)	52.7	60.2
Underwriting result (for own account)	0.2	0.2

In the year under review, we significantly expanded our **legal protection insurance** business and recorded premiums of EUR 31.6 million (previous year: EUR 12.1 million). With a loss ratio of 52.7% (previous year: 60.2%) we achieved an underwriting result for own account of EUR 0.2 million (previous year: EUR 0.2 million) after changes of the equalisation reserve.

Other insurances

in million EUR	2018	2017
Gross premiums written	22.0	38.1
Loss ratio (%)	77.9	68.0
Underwriting result (for own account)	0.4	-0.2

In the **other insurance** lines we booked gross premiums of EUR 22.0 million (previous year: EUR 38.1 million). Due to the marked increase in business volume in legal protection insurance, we now report this line separately and have adjusted the figures for the previous year accordingly. The other insurances include gross premiums written of EUR 0.3 million from the assistance insurance, which we wrote for the first time in the financial year. We concluded the financial year with a loss ratio of 77.9% (previous year: 68.0%) for other insurances. Hence, we achieved an underwriting result for own account of EUR 0.4 million (previous year: EUR -0.2 million).

Reinsurance business assumed

in million EUR	2018	2017
Gross premiums written	96.2	68.3
Loss ratio (%)	97.0	81.0
Underwriting result (for own account)	-1.7	0.3

We operate the assumed reinsurance business, in particular, in the liability, marine and aviation, fire, property and casualty lines, and wrote gross premiums of EUR 28.2 million, EUR 25.7 million, EUR 18.8 million and EUR 15.9 million, respectively, in these lines. In total, we achieved gross premiums of EUR 96.2 million (previous year: EUR 68.3 million), and hence clearly expanded our assumed business. A loss ratio that increased from 81.0% to 97.0% made an essential contribution to the result of EUR -1.7 million (previous year: EUR 0.3 million).

Business ceded to reinsurers

In line with its strategic orientation, HDI Global Specialty SE transferred most of its business ceded to reinsurers to companies of the Hannover Re Group in the financial year. Hannover Rück SE as the parent company of the Group took over the major portion of the business transferred to Group companies. In addition, there are non-proportional reinsurance contracts with various reinsurance companies covering, among other things, high exposures to and risks of natural hazards in selected areas.

Premiums booked for business ceded to reinsurers amount to EUR 856.0 million (previous year: EUR 752.3 million). Therefore, the level of retained premiums amounting to 9.6% is at the same level as in the previous year (9.5%).

From the reinsurers' perspective, the result from business ceded to reinsurers amounted to EUR 24.3 million in the financial year (previous year: EUR -2.0 million).

Capital investment policy

The Company continues to pursue a security-oriented investment policy and observes the following central investment principles:

- Generation of stable and risk-adequate returns while maintaining a high quality standard of the portfolio.
- Ensuring the liquidity and solvency of HDI Global Specialty SE at all times.
- High diversification of risks.
- Limitation of exchange rate and maturity risks through congruent currency and maturity coverage.

The major part of our investments is invested in fixed-income securities to generate regular and predictable income. The portfolio is well diversified, both in terms of investment segments and issuers. In addition, to a minor extent investments have been made in real estate funds.

A large part of our investments consists of international government bonds, which are highly secure and highly liquid. Thus, we can always guarantee our solvency. Within the framework of a balanced mix and diversification, part of the capital investments is invested in corporate bonds with, to a minor extent, a BBB rating in order to generate an attractive return even in the current interest rate environment.

In order to control and limit the risk situation, the investments are regularly adjusted to the obligations from the insurance business with regard to the modified durations and the currencies in which they were issued. This enables us to reduce our economic exposure to interest rate and currency risks.

Development of investments

The book value of shares in affiliated companies continues to amount to EUR 135k (previous year: EUR 135k).

HGS's portfolio of Other investments decreased in line with our expectations in the year under review, by 14.2% from EUR 294,364k to EUR 252,704k at book values.

The distribution of the various investment classes remained essentially constant in the year under review. The share of bearer bonds and other fixed-income securities increased slightly to 84.6% (previous year: 84.0%). Accordingly, the share of Other loans continued to decline from 9.2% to 8.5%. Deposits with banks amounted to 2.0% (previous year: 6.3 %) as at the balance sheet date. The Other investments consist exclusively of shares in real estate funds subscribed for the first time in the 2017 financial year, and contribute 4.9% (previous year: 0.5%) to our Other investments.

The composition of the investments by rating classes is almost unchanged. The still overwhelming share is invested in AAA-rated investments, which account for about 48% (previous year: about 49%) of total investments. Also the share of investments with an AA rating declined slightly by about 35% (previous year: about 36%) and those with an A rating by about 7% (previous year: about 10%). The share of investments with a BBB rating continues to be 5% (previous year: 5%). Overall, we reduced the BBB-rated and unrated investments. Their share now amounts to about 5% after about 7% in the previous year. The real estate funds have no rating and account for a total of about 5% (previous year: about 0.5%). Consequently, the level of security of our portfolio in its entirety is almost unchanged.

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

The valuation reserves in the Other investments amounted to EUR 1,367k at the balance sheet date (previous year: EUR 1,910k). Of this amount, EUR 1,201k (previous year: EUR 1,564k) are bearer bonds and other fixed-income securities and EUR 257k (previous year: EUR 371k on balance) are registered bonds and promissory note loans. There are hidden liabilities of EUR 91k (previous year: EUR 25k) in Other investments.

Investment result

The current investment income in the year under review amounts to EUR 4,479k (previous year: EUR 8,717k), of which EUR 4,479k (previous year: EUR 4,716k) relate to current interest income from Other investments.

The result from the disposal of investments amounts to EUR -431k (previous year: EUR -1,388k) and consists of gains from the disposal of investments amounting to EUR 340k (previous year: EUR 543k) and losses from the disposal of investments amounting to EUR 771k (previous year: EUR 1,931k).

Depreciation on investments amounts to EUR 1,204k (previous year: EUR 1,583k) and mainly relates to bearer bonds and other fixed-income securities valued according to the strict lower of cost or market principle. Write-ups on investments for which write-downs were made in the previous year amount to EUR 337k (previous year: EUR 110k).

The management of investments caused expenses of EUR 586k in the financial year (previous year: EUR 604k).

The total investment result amounts to EUR 2,595k (previous year: EUR 5,252k).

Other result

The other result consists of other income of EUR 11,223k (previous year: EUR 8,588k) and other expenses of EUR 27,247k (previous year: EUR 28,336k), resulting in a loss on balance of EUR 16,024k (previous year: loss of EUR 19,748k) as other result.

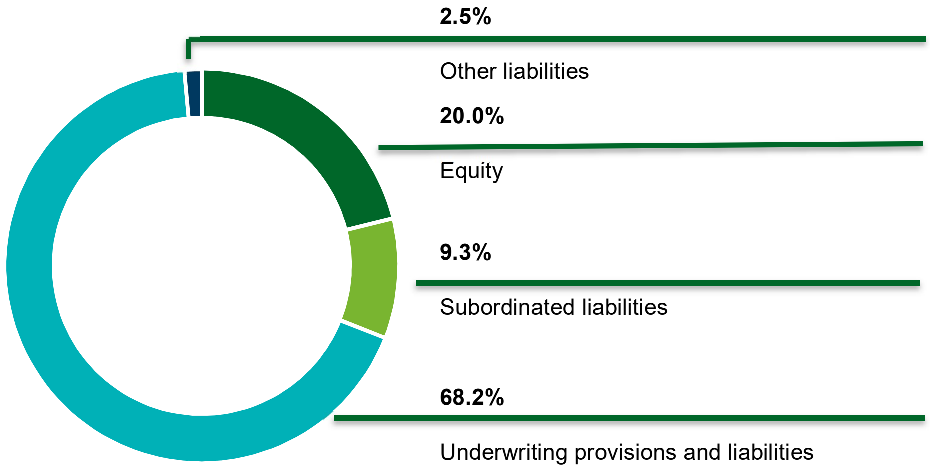
Total result

The financial year ended with a loss of EUR 20,500k (previous year: loss of EUR 9,200k) each before profit transfer or loss absorption. The deficit is fully covered by the existing profit transfer agreement such that the annual net income is EUR 0 as in the previous year.

Capital structure

The capital structure and the composition of the liabilities of HDI Global Specialty SE result from our activities as an insurance company. By far the largest share is attributable to underwriting provisions and liabilities. In addition, there are our equity and our subordinated liabilities.

Overall, our capital structure is highly consistent compared with the previous year. With 20.0% (previous year: 22.4%) of the balance sheet total, equity continues to represent our most important source of financing. Through continuous monitoring and appropriate control measures, we ensure that our business is backed by sufficient equity at all times. Subordinated liabilities, which further strengthen our capital base, account for 9.3% (previous year: 10.6%) of the balance sheet total. The slight decline, with unchanged nominal values, is currency-related and was caused by the increase in the balance sheet total associated with the expansion of business. Due to the expansion of business, the share of the underwriting provisions and liabilities rose to 68.2% (previous year: 65.3%).



Branches

HDI Global Specialty has the following branches:

- London, United Kingdom
- Stockholm, Sweden
- Milan, Italy
- Sydney, Australia
- Toronto, Canada

Spin-off

Asset investment and management were transferred to Ampega Asset Management GmbH (formerly Talanx Asset Management GmbH), Cologne, under a spin-off agreement. The internal auditing function was performed by the internal auditing department of Hannover Rück SE and will in future also be performed by the internal auditing department of Talanx AG. The processing of claims in the legal protection insurance segment in the branch office in Stockholm, Sweden, was transferred to Svedea Skadeservice AB in Stockholm.

IT

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

Employees

As of December 31, 2018, the Company had 135 employees (previous year: 115).

Our employees

Employee interests, employee development and advancement as well as employee retention

The success of our Company depends directly on the successful work of our employees. We therefore pay special attention to the qualifications, experience and motivation of our employees and promote them through excellent personnel development and leadership work. Our strategic personnel planning enables us to adjust the number and qualifications of our employees to the current and future requirements of our market presence and also to the requirements of increasing digitalisation.

HGS offers its employees an attractive workplace that promotes motivation, commitment and teamwork and may also include a global scope of duties through membership in a globally acting insurance group. Our attractiveness as an employer is further underpinned by scheduled career development programmes, the commitment to explicitly express our appreciation for our employees as well as a concept that allows them to share in our sustainable business success. Our employees are proud to work for a successful company in the specialty insurance business. We ensure that success can be consciously experienced.

The basis of our common corporate culture is the greatest possible delegation of tasks, responsibility and authority. In this way, we create the conditions for our employees to be able to act quickly and flexibly. We support this by setting targets, and expect our managers to encourage their employees to take responsibility for their own actions.

Of particular importance are our managers. They lead their employees according to our leadership principles. We support our managers in developing their leadership qualities. The so-called leadership feedback enables the employees to provide their superiors with regular feedback on their leadership behaviour.

Where possible, we fill vacant management positions with the same qualifications from within our own ranks and therefore take management potential into account as early as at the hiring stage. In order to achieve a better gender balance, we aim to increase the proportion of women at all management levels.

In expanding and establishing our personnel development measures, we attach particular importance to offering services that are tailored to specific needs and target groups. Our advanced training programme, which is open to all employees, includes in particular courses on reinsurance, information technology, social and methodological skills and language courses. These offers are constantly reviewed and revised.

Targeted strengthening of our advanced training offering

In the past financial year, we focused in particular on supporting our employees and managers in dealing with the effects of the noticeably changing working environment. In particular the effects of agile forms of work or automated or digitised work processes play a role here. For example, we introduced the new workshop "Fit for Changes". The aim of this event, which could be attended jointly by employees and managers, was the preparatory simulation of change processes in order to prevent stress situations resulting therefrom. This workshop thus represents a conscious bridge between the topics of change and health.

Moreover, we rendered support to our managers by offering so-called practice days, during which challenges of everyday leadership life can be discussed in small groups in a sheltered setting with the participation of a trainer and worked on using coaching or conflict resolution techniques. We continued the offers on "Health - Management Task and Personal Responsibility" as well as on "Gender-Specific Communication," which accompanies our mentoring programme for women at management level. Also special seminars are offered to our managers, e.g. updated workshops with adapted structure on labour law topics.

Continuation of the health management offering

We continued our health management offering, which has been noticeably expanded in recent years.

Seminars and workshops to strengthen resilience and the recreational skills of our employees and managers are also an integral part of our preventive support. We offer our managers workshops specially tailored to their needs, including the topic "Health - Management Task and Personal Responsibility".

The continuation of our Employee Assistant programme is aimed in the same direction. It is an external and anonymous immediate counselling service for professional, private and health concerns of our employees and managers as well as their relatives, including the offer to make use of a family service. In the past financial year, this offer again proved to be a helpful and popular instrument.

Last but not least, we have further improved the legally required process for operational integration management. In 2018, a works agreement was concluded on this subject, which ensures a coordinated internal process with the participation of all relevant bodies.

Further implementation round of the mentoring programme for women

In the past financial year, we completed another round of our mentoring programme for women. Mentoring is a protected, non-hierarchical, temporary partnership. Here, we bring together female employees (mentees) and managers (mentors) for a period of twelve months for a targeted, regular exchange. During the mentoring programme, the mentees are given the opportunity to reflect on their professional development to date and actively shape their future careers. In addition, they gain insights into new professional areas and can learn from the experiences of their mentors.

The special focus of this programme is part of our initiative to provide targeted support for female junior staff through their promotion within the Company and individual advancement.

In a survey conducted after completion, both the mentees and the mentors expressed high satisfaction with the process and the individual learning successes achieved.

This positive feedback encouraged us to continue this programme. In 2018, for example, we organised two information events at which interested employees could inform themselves about contents and objectives and then apply for participation in the next implementation round in 2019 / 2020.

Thanks to the employees

The Board of Management thanks all employees for their commitment in the past year. At all times, the workforce has identified with the Company's objectives and pursued them successfully. We would like to thank the employees and representatives who have been active in our co-determination committees for their critical and constructive cooperation.

Sustainability at HDI Global Specialty SE

For HGS, sustainability means the commitment to long-term economic value creation combined with the forward-looking concept of good corporate governance, ecological self-commitment and social responsibility.

Information on sustainability aspects in the Hannover Re Group and the Talanx Group can be found in the respective non-financial sections in the annual reports of the Hannover Re Group and the Talanx Group as well as detailed explanations in the sustainability reports of the Hannover Re Group and the Talanx Group and online at www.hannover-re.com/nachhaltigkeit and www.talanx.com/nachhaltigkeit.

Report on opportunities and risks

Risk report

Our ultimate goal

HDI Global Specialty SE provides the Talanx Group with business opportunities in selected primary insurance markets for special major risks and specialty covers brokered through agencies and is an integral component of the Talanx Group's business model.

Risk management is embedded in the risk management system of the Talanx Group. Risk control and monitoring is therefore not only performed at the level of HGS, but also at the level of the Hannover Re Group and, in future, HDI Global SE.

The Company strives to have adequate capital resources that are selected such that business opportunities can be seized at any time.

Strategy implementation

Our corporate strategy sets out the guiding principles that, across all businesses, ensure the realisation of our vision of a profitable, growing and diversified insurance company with efficient processes and a responsible organisation.

We derive our risk strategy from the corporate strategy. The main strategic points of reference for our risk management are the following principles of the corporate strategy:

- We actively manage risks.
- We provide adequate capital resources.
- We focus on risk culture, corporate governance and compliance.

The risk strategy is the central element in our handling of opportunities and risks. It further specifies the objectives of risk management and documents our understanding of risk. We have defined ten overriding principles in the risk strategy:

1. We comply with the risk appetite set by the Board of Management.
2. We integrate risk management into value-based management and allocate our capital according to risk-based principles.
3. We promote an open risk culture and the transparency of the risk management system.
4. We support the Talanx Group in meeting the requirements of the rating agencies.
5. We fulfil the regulatory requirements.
6. We act under due consideration of materiality and proportionality.
7. We apply appropriate quantitative methods.
8. Through our organisational structure we ensure that the individual functions are separated from each other.
9. We use suitable qualitative methods.
10. We continuously develop ourselves in order to adequately address changes in our risk profile.

Our risk strategy identifies our core risks, risk-bearing capacity and risk tolerance. It is the central element in our handling of risks. We review the risk strategy, the risk register, the guidelines for managing operational, strategic and reputational risks, the limit and threshold system and the risk and capital management guideline at least once a year. This ensures that our risk management system is up to date.

Significant external factors influencing risk management in the past financial year

In the past financial year, HGS undertook extensive activities to create the conditions for a growth initiative supported by the future joint owners, HDI Global SE and Hannover Rück SE. The Company's extended mandate comprises the agency and specialty primary insurance business, including in the lines of pecuniary damage liability, directors' and officers' liability, legal protection, sports and entertainment, aviation, offshore energy and animal insurance. In particular, preparations were made to sell 50.2% of the shares to HDI Global SE, to change the company name and to strengthen the workforce in order to integrate further branches and agencies and to ensure the exercise of renewal rights in the insurance business, which had previously been underwritten by HDI Global SE. The Company's risk profile develops in line with its growth. The operational risk is consequently subject to a dynamic that the Company manages through tailor-made project management.

HGS is still in the pre-application phase for an internal capital model to be approved by the supervisory authorities for the calculation of solvency capital requirements. A capital model approved by the supervisory authority covers the most important underwriting, market, operational and default risks for corporate management. In contrast to a standard model, an internal capital model enables us to best reflect the risk structure of our specialty insurance business and our investments.

The decision of United Kingdom to withdraw from the EU created the need to reorient the future organisation, in particular the UK branch, as there may be changes in the freedom of establishment depending on the political decisions to be taken. The current legal framework and the associated uncertainty as to which measures are to be taken to maintain uninterrupted business operations represent the main challenge. Last year, HGS submitted an application to the UK Prudential Regulatory Authority (PRA) for a third-country licence. This was answered by the PRA by including HGS in the so-called "temporary permissions regime". This status allows HGS in the case of a "hard" Brexit to conduct business until a permanent solution is agreed on the legislative side.

Significant factors influencing the risk management are:

- The persistently low level of interest rates on the capital markets.
- The volatility of exchange rates.
- The market environment remaining rather soft.

Risk capital

In the interest of its policyholders and shareholders, HGS ensures an appropriate relationship between risks and equity. Our quantitative risk management, based on our internal capital model, provides a uniform framework for the assessment and management of all risks affecting the Company and our capital position. As part of HGS's risk management, compliance with regulatory solvency regulations is regularly monitored.

HGS's internal capital model is a stochastic corporate model covering all business areas of HGS. It takes into account all material risks affecting the development of equity. We have identified a number of risk factors for each of the various risk categories, for which we define probability distributions. Risk factors include, for example, economic indicators such as interest rates, exchange rates and inflation indices, but also insurance-specific indicators like the number of natural catastrophes in a particular region and the insured damage amount per catastrophe. When determining the probability distributions for the risk factors, we make use of historical and publicly available data as well as internal data. Moreover, the process is complemented by the knowledge of internal and external experts.

Organisation and processes of risk management

To ensure an efficient risk management system, HGS has anchored the position of Chief Risk Officer in the Board of Management, established a risk management function and set up a risk committee. The organisation and interaction of the individual risk management functions are decisive for our internal risk management and control system. In our system, the central risk management functions are closely interlinked and the roles, tasks and reporting channels are clearly defined and documented in line with the so-called three lines of defence. The first line of defence consists of risk management and original risk responsibility. The second line of defence consists of the key functions, namely risk management, actuarial function and compliance function. These units are responsible for surveillance. The third line of defence consists of process-independent monitoring by the internal auditing function.

Key elements of our risk management system

Our risk strategy and our guideline for risk and capital management as well as the limit and threshold value system for the main risks of HGS describe the central elements of our risk management system. The risk management system is subject to a permanent cycle of planning, activity, control and improvement. In particular, systematic risk identification, analysis, assessment, control and monitoring as well as risk reporting are of importance for the effectiveness of the overall system.

The guideline describes, among other things, the tasks, rights and responsibilities, the organisational framework conditions and the risk control process. The regulations are derived from the corporate and risk strategy and also take into account the regulatory requirements for risk management as well as international standards and developments of appropriate corporate governance.

Risk-bearing capacity concept

The determination of the risk-bearing capacity includes the determination of the overall risk coverage potential available and the calculation how much of it is to be used to cover all material risks. This is done in accordance with the requirements of the risk strategy and the determination of the risk appetite by the Board of Management. Our internal capital model is used to assess the individual risks that can be quantitatively assessed and the overall risk position. A system of limits and threshold values is in place to monitor material risks. In addition to other key figures of risk relevance, also parameters derived and determined from the risk-bearing capacity are included in this system. Compliance with the overall risk appetite is monitored on an on-going basis.

Risk identification

Regular risk identification is an essential information basis for monitoring risks. All identified risks are documented in the central register, which contains all material risks. Risks are identified, for example, in the form of assessments, scenario analyses or as part of the new-products process. External findings, such as recognised industry know-how from relevant bodies or working groups, are included in the process. Risk identification is important to permanently keep our risk management up to date.

Risk analysis and assessment

Basically, each risk identified and deemed significant is assessed in quantitative and qualitative terms. Risk types for which a quantitative risk measurement is currently not possible or difficult, are only assessed qualitatively, e.g. strategic risks, reputational risks or emerging risks. The quantitative assessment of the main risks and the overall risk position is carried out by applying the internal capital model of HGS. The model takes into account the risk concentration and risk diversification.

Risk control

The control of all material risks is the responsibility of the operating units. The identified and analysed risks are either consciously accepted, avoided or reduced. The opportunity and risk ratio is taken into account when such decision is made by the business unit. Risk control is supported by the requirements of the subscription and investment guidelines and by defined limit and threshold values.

Risk monitoring

The task of Risk Management is to monitor all identified material risks. This includes, among other things, monitoring of the risk strategy implementation, compliance with defined limit and threshold values and the permanent application of risk-relevant methods and processes. Another important task of risk monitoring is to determine whether the risk control measures have been implemented and whether the planned effect of the measures is sufficient.

Risk communication and risk culture

Risk management is firmly integrated into our operational processes. This is supported by transparent risk communication and an open approach to risks as part of our risk culture. Risk communication takes the form, for example, of internal and external risk reports and training courses for employees. Also the regular exchange of information between risk-controlling and risk-monitoring units is fundamental to the proper functioning of risk management.

Risk reporting

Our risk reporting provides structured and timely information on all material risks and their potential impact. The risk reporting system consists of regular risk reports, e.g. on the overall risk situation, compliance with the parameters defined in the risk strategy or the capacity utilisation of the natural catastrophe scenarios. Risk reporting focuses not only on the current but also on the expected risk situation. In addition to regular reporting, internal immediate reports on material and short-term risks are prepared as required.

We met the regulatory reporting requirements for HGS, among other things, with quantitative reporting, the Solvency and Financial Position Report (SFCR), the Regular Supervisory Report (RSR) and an Own Risk and Solvency Assessment Report (ORSA).

Process-integrated and independent monitoring and quality assurance

The Board of Management is responsible for the proper business organisation of the Company, irrespective of the internal rules of responsibility. This also includes monitoring the internal risk management and control system. Process-independent monitoring and quality assurance of risk management is carried out by the internal auditing department and external bodies (supervisory authorities and auditor). The auditor examines, in particular, the early risk detection system. Process-integrated procedures and regulations, such as the internal control system, complete the overall system.

Internal control system

We conduct our business activities such that they always comply with all legal requirements. The internal control system (ICS) is an important element that serves, among other things, to secure and protect existing assets, prevent and detect errors and irregularities and comply with laws and regulations. The core elements of the HGS ICS are documented in a guideline which creates a common understanding for a differentiated implementation of the necessary controls. Its ultimate goal is to consistently control and monitor the implementation of our corporate strategy. This guideline defines terms, regulates responsibilities and provides guidance on the description of controls. In addition, it forms the basis for the implementation of internal goals and the fulfilment of external requirements placed on HGS. The ICS consists of organisational and technical measures and controls within the Company. They include, for example:

- the four-eyes principle,
- the separation of functions,
- the documentation of the controls within the processes as well as
- technical plausibility checks and access authorisations in the IT systems.

For the ICS to function, it is important that the management, executives and employees participate at all levels.

In the area of accounting and financial reporting, processes with integrated controls ensure that the financial statements are prepared completely and correctly. This ensures that we can identify at an early stage and reduce the risk of material errors in the financial statements. As our financial reporting is highly dependent on IT systems, it is also necessary to control these applications. Authorisation concepts regulate the system access and content checks and system checks are implemented for each step to facilitate the analysis and immediate elimination of errors.

Risk landscape

HGS assumes a great many of risks in the course of its business activities. These risks are consciously entered into, managed and monitored in order to take advantage of the associated opportunities. The guidelines and decisions of the Board of Management on risk appetite are fundamental to the assumption of risks. They are based on the calculations of the risk-bearing capacity.

Underwriting risks

Risk management has defined various overarching guidelines for efficient risk management. It is essential that the assumption of risks is, on the one hand, systematically controlled by the existing underwriting guidelines and, on the other hand, mitigated to a large extent by Group-internal reinsurance in accordance with the business model of HGS. Our conservative reservation level is an important indicator for risk management. We distinguish between risks resulting from business operations in previous years (reserve risk) and risks resulting from business operations in the current year or future years (price / premium risk).

Diversification within HGS is actively managed by allocating the cost of capital depending on the diversification contribution. The degree of diversification is measured in our internal capital model. A high diversification effect is achieved by writing business in different lines of business and different regions with different business partners. In addition, the active limitation of individual risks, such as natural catastrophes, strengthens the diversification effect.

The reserve risk, i.e. the risk of under-reserving for losses and the resulting strain on the underwriting result, has priority in our risk management. A conservative reservation level is important for us. To counter the risk of under-reserving, we calculate our loss reserves on the basis of our own actuarial assessments. The IBNR reserve is formed in accordance with the relevant provisions for losses that have already occurred but have not yet come to our attention. The classes of business with a longer run-off period have a significant influence on the IBNR reserve. The IBNR reserve is calculated differentiated according to lines of business and regions. Another monitoring tool is the statistical settlement triangles we use. They show how the provision has changed over time as a result of the payments made and the recalculation of the provision to be formed as at the respective balance sheet date. Their adequacy is monitored by our actuarial department. On an annual basis, quality assurance of our own actuarial calculations regarding the adequacy of the reserve amount is additionally performed by external actuarial and auditing companies.

Licensed scientific simulation models are used to assess the catastrophe risks from natural hazards (in particular earthquakes, storms and floods) that are material to us. We also determine the risk for our portfolio using various scenarios in the form of probability distributions. The monitoring of risks resulting from natural hazards is complemented by realistic extreme loss scenarios. As part of this process, the Board of Management determines the risk appetite for natural hazards once a year on the basis of the risk strategy. To this end, it determines the portion of the economic capital that is available to cover risks from natural hazards. This is an essential basis for our underwriting behaviour in this segment. As part of our holistic risk management, we take into account a large number of scenarios and extreme scenarios, determine their impact on the portfolio and success variables, assess them in comparison with the planned values and point out alternative courses of action. To monitor risks, we regularly report on the effects of various extreme loss scenarios and return periods. Risk management ensures that the maximum amounts made available as part of risk management are complied with.

The price / premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based.

Market risks

In view of the challenging capital market environment, the preservation of the value of our investments and the stability of our rate of return are of great importance. HGS therefore bases its portfolio on the principles of a balanced risk/return ratio and broad diversification. Based on a low-risk investment mix, the investments reflect both currencies and maturities of our liabilities. Market risks include equity, interest rate, currency, real estate, spread and credit risks. We minimise interest rate and currency risks by matching payments from securities as closely as possible with forecast future payment obligations from our insurance contracts.

In order to ensure that our investments retain their value, we continuously monitor compliance with a comprehensive early warning system. This system defines clear limits and thresholds as well as escalation paths for the market value fluctuations and realisation results from investments accumulated since the beginning of the year. They are clearly described in line with our risk appetite and will lead to clear information and escalation paths if a corresponding market value development is exceeded.

In addition to the various stress tests, which estimate the loss potential under extreme market conditions, sensitivity and duration analyses and our Asset Liability Management (ALM) are further key risk management measures. Duration bands have also been installed within which the portfolio is being positioned in line with market expectations. The portfolio of fixed-income securities is exposed to the interest rate risk. Falling market yields lead to increases in the market value and rising market yields to decreases in the market value of the fixed-income securities portfolio. In addition, the credit spread risk exists. The credit spread is the difference in interest rates between a high-risk bond and a risk-free bond with identical maturities. Changes in these risk premiums observable on the market lead to changes in the market value of the corresponding securities analogous to changes in pure market yields.

Currency risks exist in particular when there is a currency imbalance between underwriting liabilities and assets.

The installed measurement and monitoring mechanisms ensure a cautious, broadly diversified investment strategy.

Bad debt risk

The bad debt risk consists of the risk of total or partial default by the counterparty and the associated payment default.

Since most of the business assumed by us is reinsured, the bad debt risk in reinsurance is of major importance to us. In line with its role within the Group, HGS cedes primary insurance risks almost exclusively to companies of the Talanx Group. In order to minimise the bad debt risk resulting from business ceded to third parties, our non-Group reinsurers are carefully selected and monitored from the point of view of creditworthiness. Depending on the type and expected duration of the settlement of the reinsured business, also internal and external expert assessments are used for the selection of reinsurers in addition to the minimum ratings of the rating agencies Standard & Poor's and A. M. Best. The bad debt risk vis-à-vis companies of the Hannover Re Group is monitored using the internal capital model. In particular, we also monitor our relationships with brokers, underwriting agencies and claims managers who are exposed to a risk, for example through the possible loss of premiums paid by policyholders to business partners. We reduce these risks, for example, by reviewing broker relationships for criteria, such as professional liability insurance, payment behaviour and proper contract execution.

Operational risks

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

Within the overall framework of operational risks, we consider in particular business process risks (including data quality), compliance risks, function outsourcing risks (including our sales channels), fraud risks, personnel risks, information and IT security risks and business interruption risks.

Business process risks consist of the risk of inadequate or faulty internal processes which may arise, for example, as a result of inadequate process organisation. Here, data quality is a critical success factor. By continuously optimising our processes, we preventively reduce the risks in this area.

Compliance risks primarily consist of the risk of violations of standards and requirements which can result in lawsuits or official proceedings with a not inconsiderable impairment of the business activities of HGS if they are not observed. Regulatory compliance, compliance with business principles, data protection and also antitrust and competition law compliance were defined as issues of particular relevance to compliance. The compliance risk includes tax and legal risks.

With the help of a sanction testing software, parts of the insurance portfolio of HGS as well as payment transactions are filtered by persons and companies that are subject to sanctions due to a criminal or terrorist background. If such persons or companies are discovered, appropriate measures are taken.

The responsibilities within the compliance organisation are regulated and documented. Interfaces with risk management are established. Regular compliance training programmes supplement the range of instruments.

Function outsourcing risks may result from the outsourcing of services and/or organisational units to third parties outside HGS. To limit the risk, there are binding regulations which, for example, require a risk analysis be performed prior to a material spin-off. Within the framework of such analysis, it is examined, among other things, which specific risks exist and whether a spin-off is possible at all. In particular, when insurance-specific activities are outsourced, risks are reduced by carefully selecting the agencies and claims managers, agreeing binding underwriting and claims settlement guidelines and performing regular reviews.

Fraud risks arise from the risk of intentional violations of laws or regulations by employees (internal fraud) and/or by external parties (external fraud). The internal control system and the line-independent audits of the internal auditing department reduce such risks.

The functional and competitive capability of HGS is largely attributable to the competence and commitment of our employees. In order to reduce personnel risks, we pay particular attention to the qualifications, experience and motivation of our employees and promote them through personnel development and leadership work. Regular monitoring of fluctuation rates and other key personnel figures ensure that personnel risks are identified at an early stage and create scope for action.

Information technology risks and information security risks consist, among other things, of the risk of inadequate integrity, confidentiality or availability of systems and information. For example, potential damage that could result from non-compliant processing of personal data or from the non-availability of our core systems is essential for us.

In view of the wide range of these risks, there are a variety of control and monitoring measures as well as organisational requirements, such as confidentiality agreements to be concluded with service providers.

The primary objective in reducing the risks of business interruption is to return to normal operation as quickly as possible after a crisis, e.g. by implementing existing emergency plans. On the basis of internationally recognised standards, the decisive framework conditions were worked out and also a crisis unit was formed to serve as a temporary management body in the event of a crisis.

Other risks

In the area of other risks, future risks (emerging risks), strategic risks, reputation risks and liquidity risks are significant for us.

Emerging risks are characterised by the fact that their degree cannot be reliably assessed, particularly with regard to our underwriting portfolio. Such risks gradually develop from weak signals to clear trends. Early risk detection and subsequent assessment are of crucial importance to us.

Strategic risks arise from a possible mismatch between the corporate strategy of HGS and the constantly changing framework conditions of the environment. This imbalance may be caused by wrong fundamental strategic decisions, inconsistent implementation of defined strategies and business plans or wrong allocation of resources. Therefore, we regularly review our corporate strategy and adjust our processes and derived guidelines as necessary. For the operational implementation of the strategic principles and objectives, we have defined success criteria and key figures that are decisive for the achievement of the respective objectives.

Reputational risks relate to the risk that the trust of our customers, employees or also the public in our Company may be damaged. This risk can significantly jeopardise the business basis of HGS. A good corporate reputation is therefore a basic prerequisite for our business. Reputational risks may arise from all business activities of HGS.

We define liquidity risk as the risk of not being in a position to meet our financial obligations when they fall due or to achieve lower returns on investments. The liquidity risk consists of the refinancing risk (cash and cash equivalents required could not be procured at all or only at increased cost) and the market liquidity risk (financial market transactions could only be concluded at a lower price than expected due to a lack of market liquidity). Key elements of the liquidity management of our investments are, on the one hand, the management of the maturity structure of our investments on the basis of the planned payout profiles from underwriting liabilities and, on the other hand, regular liquidity planning as well as the investment structure of our investments. Beyond the foreseeable payments, unexpected, extraordinarily high payouts could pose a liquidity risk.

We manage the overall liquidity of our portfolio of corresponding government bonds and cash holdings by monitoring the liquidity of these securities on each trading day and placing them in the context of our short-term and long-term payment obligations. These measures effectively reduce the liquidity risk.

Opportunity report

As a broad-based provider of specialty insurance in a high-margin market, HGS has excellent growth prospects. Exercising the renewal rights in the specialty business having been previously underwritten by HDI Global SE, has created a promising starting position for a substantial organic expansion of the portfolio. The ownership structure as a joint venture opens up opportunities for the cooperation with Hannover Rück SE and HDI Global SE.

In particular, the use of the worldwide network will contribute to the positive development of the Company. The cross-divisional segment expertise in the specialty segment will be combined in one place and will then be able to focus on particularly profitable and high-growth market segments.

Digitalisation opens up new opportunities for us, since the HGS's business model is ideally suited for the needs of InsurTechs and start-ups. Here, the old and the new world fit together seamlessly. We also have specific cyber insurance products in our product range. This enables us to offer our customers solutions for this changed risk situation.

To ensure that opportunities can be further identified and ideas can be successfully implemented in business, HGS pursues several closely linked paths to achieve a holistic opportunity and risk management. Non-overlapping interaction of the various functions within opportunity and risk management is of importance here. The networking of innovative minds results in intensive connections to other projects, working groups and bodies, such as the working group "Emerging Risks and Scientific Affairs" with regard to future risks and opportunities. The working group conducts a qualitative assessment of the emerging risks.

As a result, not only the potential risks but also any existing business opportunities are examined. Within the framework of the working group, the topics of artificial intelligence and microplastics were analysed in the year under review. If a new business opportunity is to be implemented in concrete terms, the so-called new-products process will generally be completed, provided that the criteria defined for this by risk management are met. This process is supported by HGS's risk management. The process will always be completed if a contractual commitment is to be entered into that has not yet been applied in this form by HGS or the risk to be insured is new or if the liability is substantially higher than the previous scope of cover. If this is the case, all significant internal and external influencing factors will be examined in advance and evaluated by risk management.

Furthermore, it is ensured that the Board of Management approves the application or sale of the new insurance product.

Overall assessment by the Board of Management

According to our current knowledge, which results from an overall assessment, the Board of Management of HGS does not see any risks which could endanger the continued existence of HGS in the short or medium term or which could significantly and sustainably impair the assets, financial position and results of operations. We are convinced that:

- our established risk management system provides us with a transparent overview of the current risk situation,
- our overall risk profile is appropriate.

In our opinion, the risks described are manageable since our control and monitoring measures are effective and closely interlinked. Our control and monitoring instruments as well as our organisational structure and procedures ensure that we identify risks in good time. Here, our central monitoring instrument is our established risk management system which brings together both qualitative and quantitative information for effective risk monitoring.

Our own assessment that the existing risks are manageable is confirmed by various financial indicators and external evaluations. In our central limit and threshold value system for the major risks of HGS, specific monitoring indicators, corresponding reporting limits and potential escalation steps are bindingly defined. As a result, the system provides us with an overview of potential undesirable developments of the defined risk tolerances and enables us to react promptly.

Forecast report

Overall economic development

In 2019, the economy will continue to point upwards, albeit at a slower pace. In its forecast for the turn of the year, the Institute for the World Economy (IfW) anticipates that growth will weaken by 0.3 percentage points to 3.4% in 2019. One of the reasons is that capacity utilisation in the advanced economies will hardly increase at all. Moreover, production in the emerging markets will only expand at a moderate pace in view of the often unfavourable framework conditions and a difficult financial environment. Furthermore, the deteriorating trade policy environment is likely to have a dampening effect on the economy.

The upswing in the advanced economies will lose momentum due to slow tightening of the expansionary monetary policy, dwindling stimulus from the fiscal policy and an only moderately rising demand from the developing and emerging countries: After 2.4% last year, growth in the current year is expected to be 2.1%.

China's growth rate will decline once again. In the other emerging markets, expansion will weaken as a result of the poorer financial conditions, although it will generally remain strong in most cases. After an election year characterised by political uncertainty in Brazil and Mexico, growth in the two major Latin American countries will pick up again this year. The negative growth contributions from Venezuela and Chile will be lower in 2019. The economy in Turkey is currently ebbing away significantly amid the crisis in the domestic currency, with the result that the growth rate in 2019 will only be 0.4%.

Risks exist, in particular, in a further intensification of the trade conflicts: The spiral of reciprocal market access and ownership disputes between the USA and China via customs duties was stopped for the time being, but uncertainties about the trade policy framework remain. There is further potential for conflict between the USA and the European Union, which indirectly deal with trade balance issues via the vehicle construction sector. In Europe, the debt sustainability in Italy, the delay in reforms in France and a possible disorderly Brexit could lead to a weaker than expected economic development.

Insurance sector

Even though the insurance industry continues to face numerous challenges, some of them being substantial, in the current financial year, the mood is gradually improving throughout the industry. This is partly attributable to the generally good overall economic mood and the fact that the industry is positively accepting the challenges of change. It is also attributable to the fact that many companies are now actively integrating the new InsurTechs entering the market as partners in their business models and finding numerous points of contact for new products.

The insurance industry continues to be concerned about the continuing low interest rates and the further increase in regulatory requirements: The ECB's decisions in January 2019 to keep the key interest rate at zero percent do not suggest that the euro zone will quickly move away from extremely low interest rates. On the other hand, the central bank in the USA is continuing its course towards raising interest rates in 2019. This should, at least in the long term, also promote the normalisation of interest rates in Europe. On the regulatory side, it can be seen that the worldwide insurance supervisory authorities are now expanding their focus from solvency issues to monitoring market behaviour. For example, the topic of market behaviour has already been included in the five-year strategic plan of the International Association of Insurance Supervisors (IAIS).

The industry also continues to be intensely concerned with changed customer expectations. In an environment of increasing digitalisation, customer behaviour is becoming increasingly agile. Also the demands of customers with regard to performance and services are changing markedly. Insurers are responding by expanding service quality, intensifying customer contact management and developing new products to meet the changing requirements.

The pressure to reduce costs remains great. This is why companies are accelerating digitisation of their business processes. They are expanding the automation of their back-office processes and increasing the flexibility of their IT structures. At the same time, this gives them more scope to improve customer service. This is also in line with the demand since customers are increasingly demanding tailor-made solutions. The result are insurance products that actively support the customers' strategic and growth objectives. The increasing need for hedging due to the climate change, higher political risks and the increasingly important protection against cyber risks continue to provide the industry with numerous starting points for new offers. In particular, digital transformation of the industry is opening up new opportunities for loss prevention and increased cooperation with partners from the technology industry.

For 2019, we expect the growth in property and casualty insurance to continue. Also the combined (loss/expense) ratio is anticipated to be at previous year's level, provided that the claims burdens, in particular from natural catastrophes, do not deviate significantly from the expected level. We continue to expect intense competition.

Outlook for the business as a whole

Despite challenging conditions on the capital market and in specialty primary insurance, we expect a satisfactory overall result for HGS in the current financial year. Based on stable exchange rates, we expect gross premium growth for the 2019 financial year to be slightly higher than in the previous year due to an expansion of business activities.

In view of the market situation, we will adhere to our selective underwriting policy. Thanks to our diverse and good customer relationships and access to the global HDI network, we believe we are well positioned in a highly competitive environment.

For the year 2019, the Company expects a significantly improved result. This is based on the premise that the burden of major losses will remain in line with expectations and that there will be no negative developments on the capital markets.

Lines and types of insurance operated

Direct written insurance business

Casualty insurance (without casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor vehicle insurance

Fire insurance

Householders' comprehensive insurance

Homeowners' comprehensive reinsurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal protection insurance

Assistance insurance

Other insurances

Reinsurance business assumed

Casualty insurance (without casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor vehicle insurance

Fire insurance

Householders' comprehensive insurance

Homeowners' comprehensive reinsurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal protection insurance

Other insurances

Annual Financial Statements

Balance as of 31 December 2018

Assets (in EUR thousand)	31 December 2018				31 December 2017
A. Intangible assets					
I. Purchased concessions, industrial and similar rights and assets, and licences to such rights and assets				6,551	0
B. Investments					
II. Investments in affiliated undertakings					
1. Shares in affiliated undertakings		135			135
			135		135
III. Other investments					
1. Bearer securities and other fixed-income securities		213,746			247,174
2. Other loans					
a) Registered bonds	4,317				9,514
b) Notes and loans receivable	17,243				17,635
		21,560			27,149
3. Deposits with credit institutions		4,936			18,635
4. Other investments		12,462			1,406
			252,704		294,634
IV. Deposits with ceding undertakings			1,965		0
				254,804	294,499
C. Debtors					
I. Debtors arising out of direct insurance operations from insurance intermediaries			410,761		356,348
II. Debtors arising out of reinsurance operations			53,293		39,324
of which due to affiliated undertakings: EUR 6,266k (previous year: EUR 2,072k)					
III. Other debtors			38,258		15,639
of which due to affiliated undertakings: EUR 22,359k (previous year: EUR 10,821k)				502,312	411,311
D. Other assets					
I. Tangible assets and stocks			1,112		1,524
II. Cash at bank and in hand			78,594		45,473
				79,706	46,997
E. Prepayments and accrued income					
I. Accrued interest and rents			1,600		1,819
II. Other prepayments and accrued income			267		610
				1,867	2,429
Total assets				**845,240**	**755,236**

Equity and liabilities (in EUR thousand)	31 December 2018				31 December 2017
A. Capital and reserves					
I. Subscribed capital			121,600		121,600
II. Retained earnings					
1. Statutory reserve			3,040		3,040
III. Profit carried forward			44,205		44,205
				168,845	168,845
B. Subordinated liabilities				78,645	79,998
C. Technical provisions					
I. Unearned premiums					
1. Gross amount		449,481			394,966
2. of which minus: share for insurance business ceded		364,721			322,606
			84,760		72,360
II. Provisions for claims outstanding					
1. Gross amount		1,645,842			1,617,500
2. of which minus: share for insurance business ceded		1,493,023			1,473,696
			152,819		143,804
III. Equalisation provision and similar provisions			22,447		10,185
IV. Other technical provisions					
1. Gross amount		1,830			0
2. of which minus: share for insurance business ceded		1,556			0
			274		0
				260,300	226,349
D. Other provisions					
I. Pension provisions and similar obligations			997		835
II. Provisions for taxes			149		494
III. Other provisions			10,157		9,407
				11,303	10,736
E. Deposits received from reinsurers				14,830	11,445

F. Other liabilities					
I. Creditors arising out of direct insurance business to intermediaries			9,814		8,221
II. Creditors arising out of reinsurance operations			291,468		246,872
of which due to affiliated undertakings: EUR 269,229k (previous year: EUR 239,120k)					
III. Other creditors			10,035		2,770
of which from taxes: EUR 3,548k (previous year: EUR 1,296k) due to affiliated undertakings: EUR 4,998k (previous year: EUR 291k)				311,317	257,863
Total liabilities				**845,240**	**755,236**

It is confirmed that the provision for outstanding pension claims shown on the balance sheet under Item C II of equity and liabilities has been calculated under due consideration of Section 341 f and Section 341 g of the German Commercial Code *(HGB)*.

Hannover, 14 March 2019

Rehbock, Responsible Actuary

Income Statement

in EUR thousand	2018 1 January - 31 December			2017 1 January - 31 December
I. Technical account				
1. Earned premiums, net of reinsurance				
a) Gross premiums written	946,760			831,263
b) Outward reinsurance premiums	855,953			752,336
		90,807		78,927
c) Change in gross unearned premiums	-51,160			-32,897
d) Change in reinsurers' share in gross unearned premiums	-39,295			-19,412
		-11,865		-13,485
			78,942	65,442
2. Other technical income, net of reinsurance			493	315
3. Charges for claims incurred, net of reinsurance				
a) Payments for claims				
aa) Gross amount	581,135			488,758
bb) Reinsurers' share	519,968			441,773
		61,167		46,985
b) Change in provision for claims outstanding				
aa) Gross amount	6,459			67,088
bb) Reinsurers' share	-1,786			64,289
		8,245		2,799
			69,412	49,784
4. Change in other technical provisions, net of reinsurance				
a) Other technical provisions, net of reinsurance		275		0
			275	0
5. Operating expenses, net of reinsurance				
a) Gross operating expenses		275,342		233,709
b) of which minus: outward reinsurance commissions and profit commissions received		274,136		228,815
			1,206	4,894
6. Other technical expenses, net of reinsurance			765	934
7. Sub-total			7,777	10,145
8. Change in the equalisation provisin and similar provisions			12,262	3,571
9. Balance on the technical result, net of reinsurance			-4,485	6,574

in EUR thousand	2018 1 January - 31 December				2017 1 January - 31 December
Amount carried over				-4,485	6,574
II. Non-technical account					
1. Investment income					
a) Income from participations of which: from affiliated undertakings EUR 0k (previous year: EUR 4,001k)			0		4,001
b) Income from other investments					
aa) Income from other investments	4,479				4,716
		4,479			4,716
c) Income from write-ups		337			110
d) Profit from the disposal of investments		340			543
			5,156		9,370
2. Investment expenses					
a) Charges for the management of investments, interest and other investment expenses		586			604
b) Write-downs on investments of which unscheduled write-downs according to Section 253 Paragraph 3 Sentence 5 of the German Commercial Code *(HGB)* EUR 0k (previous year: EUR 0k)		1,204			1,583
c) Losses from the disposal of investments		771			1,931
			2,561		4,118
			2,595		5,252
				2,595	5,252
3. Other income			11,223		8,588
4. Other expenses			27,247		28,336
				-16,024	-19,748
5. Profit or loss on ordinary activities				-17,913	-7,922
6. Taxes on income			2,064		745
7. Other taxes			522		533
				2,586	1,278
8. Income from transfer of losses				20,500	9,200
9. Profit for the financial year				0	0
10. Profit carried forward from previous year				44,205	44,205
11. Allocations to retained earnings					
a) To statutory reserve				0	0
Balance sheet profit				**44,205**	**44,205**

Notes to the financial statements

The Company prepares the annual financial statements in accordance with the regulations of the German Commercial Code *(Handelsgesetzbuch; HGB)* under due consideration of the German Stock Corporation Act *(Aktiengesetz; AktG)*, the German Insurance Supervision Act *(Versicherungsaufsichtsgesetz; VAG)* and the Regulation on the Accounting of Insurance Undertakings *(Verordnung über die Rechnungslegung von Versicherungsunternehmen; RechVersV)*.

Where accounts are not yet available at the closing date, estimates of the relevant items are made in the balance sheet and income statement.

Valuation of assets

Intangible assets are valued according to the acquisition cost principle at the lower of amortised cost or fair value in accordance with the cost principle, taking into account depreciation. Depreciation is based on the anticipated useful lives.

Shares in affiliated undertakings are valued according to the acquisition cost principle at the lower of amortised cost or fair value in accordance with the cost principle, taking into account depreciation.

Bearer securities and other fixed-income securities are valued according to Section 341b of the German Commercial Code *(HGB)* in conjunction with Section 253 Paragraphs 1, 4 and 5 of the German Commercial Code *(HGB)* according to the strict lower of cost or market principle at acquisition costs less depreciation to the lower fair value.

Registered bonds and **notes and loans receivable** are recognised at the lower of amortised costs or fair value, taking into account repayments.

Deposits with credit institutions are stated at their nominal value.

Other investments are valued, under due consideration of effects over time, at the lower of amortised costs or fair value.

Deposits with ceding undertakings are recognised at nominal value according to Section 341 c of the German Commercial Code *(HGB)*.

Debtors and **other assets** are recognised at their nominal value less repayments made. Allowances are made for default risks. Other assets are recognised at amortised costs and, if appropriate, less depreciation according to the straight-line or declining method. Low-value assets are fully depreciated in the year of acquisition.

Due to the existing income tax group with Hannover Rück SE and the exercise of the option pursuant to Section 274 Paragraph 1 Sentence 2 of the German Commercial Code *(HGB)*, no **deferred tax assets** are recognised in the commercial balance sheet in the event of a resulting surplus of assets.

Valuation of equity and liabilities

The **subordinated liabilities** are recognised at their settlement amounts.

The **unearned premiums in direct written insurance business** are generally determined using the calculation method that is accurate to the day. Parts of the commissions and other acquisition costs are deducted as not transferable in accordance with the tax guidelines. In exceptional cases, the unearned premium reserves in direct written insurance business are calculated on a lump-sum basis.

The **unearned premiums for assumed reinsurance business** are formed according to the duties of the cedents. Parts of the commissions and other acquisition costs are deducted as not transferable in accordance with the tax guidelines.

The **unearned premiums for business ceded to reinsurers** are deducted from the gross unearned premium reserves and are generally determined on a daily basis by reducing the portions non-transferable for tax purposes.

The **provision for claims outstanding** consists of the following partial provisions for the direct written insurance business:

- The provisions for known claims are generally valued by applying the settlement amount required in accordance with reasonable commercial judgement on the basis of the individual claims.
- The annuity provision is calculated for each individual annuity according to actuarial principles using appropriate assumptions.
- IBNR provisions for claims incurred but not yet reported by the balance sheet date are determined on a lump-sum basis taking into account past experience.
- Provisions for claims settlement costs are formed according to Section 341 g Paragraph 1 Sentence 2 of the German Commercial Code *(HGB)*.

Receivables from recourse, salvage and division agreements are deducted from the provision for claims outstanding pursuant to Section 26 Paragraph 2 of the Regulation on the Accounting of Insurance Undertakings *(RechVersV)*.

For the assumed reinsurance business, the provision for claims outstanding is generally established on the basis of the provisions ceded by the ceding companies.

The reinsurers' shares in the provisions for claims outstandng are formed for the business ceded to reinsurers in accordance with the contractual agreements.

The **equalisation provisions and similar provisions** are formed pursuant to the provisions of Section 341h of the German Commercial Code (HGB) in conjunction with Sections 29, 30 of the Regulation on the Accounting of Insurance Undertakings *(RechVersV)*. The equalisation provision is formed according to the Annex to Section 29 of the Regulation on the Accounting of Insurance Undertakings *(RechVersV)*. The calculation of the provision for nuclear installations is based on Section 30 Paragraph 2 of the Regulation on the Accounting of Insurance Undertakings *(RechVersV)*. The provision for major risks for the product liability in connection with pharmaceutical risks is determined pursuant to Section 30 Paragraph 1of the Regulation on the Accounting of Insurance Undertakings *(RechVersV)*.

Other technical provisions are formed on the basis of the contractual provisions in individual contracts in the settlement amount required according to reasonable commercial judgement.

Other provisions are generally recognised at the settlement amount required according to reasonable commercial judgement. If provisions have a remaining term of more than one year, they are discounted at the average market interest rate of the past seven years as published by Deutsche Bundesbank for their remaining term.

Deposits received from reinsurers are valued at the settlement amount.

Pension provisions are recognised at the amount required to settle the obligation based on reasonable judgement. They are discounted at the average interest rate of the past ten years published by Deutsche Bundesbank in accordance with the Provisions Discounting Ordinance (Rück- AbzinsVO) at 3.21% with an assumed remaining term of 15 years. The pension provision is calculated using the projected unit credit method. A salary trend of 2.50% and a pension trend of 1.74% were assumed. Fluctuation probabilities were determined separately depending on age and gender. The benefit adjustment due to profit participation from reinsurance policies was taken into account in the amount of 0.0%. Valuation is based on the withdrawal probabilities of the "2018G Mortality Tables" (previous year: 2005G Mortality Tables). Employee-financed pension commitments, the amount of which is determined exclusively by the fair value of a reinsurance claim, are measured pursuant to Section 253 Paragraph 1 Sentence 3 of the German Commercial Code *(HGB)*. For these commitments, the settlement amount corresponds to the fair value of the actuarial reserve plus profit participation.

Deferred tax liabilities were offset against deferred tax assets. Deferred taxes are calculated at a tax rate of 32.63% for differences subject to corporation and trade tax in Germany, while for differences subject to tax abroad the applicable local tax rates there are included in the valuation.

The **other liabilities** are recognised at their settlement amounts.

Foreign currency translation

Business transactions posted in foreign currencies are translated into the reporting currency at the exchange rate prevailing on the date of entry. The assets and liabilities shown in the balance sheet are translated into euros at the mean exchange rates on the balance sheet date. To minimise currency risks, liabilities are congruently covered, to the extent possible, by corresponding asset items in the respective currencies. In currency terms, foreign currency liabilities are combined with matching foreign currency assets to form valuation units pursuant to Section 254 of the German Commercial Code *(HGB)* as a result of offsetting opposing changes in value (portfolio hedges), and the result from the currency translation of these foreign currency holdings is reported independently of the acquisition cost and imparity principles.

Notes to the assets

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

in EUR thousand		2017	2018					
		Balance sheet amounts as at 31 December	Additions	Disposals	Write-ups	Write-downs	Currency effects	Balance sheet values as at 31 December
A.	**Intangible assets**							
	1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	0	6,813	-	-	-262	-	6,551
Total A.		**0**	**6,813**	**-**	**-**	**-262**	**-**	**6,551**
B. I.	**Investments in affiliated undertakings**							
	1. Shares in affiliated undertakings	135	-	-	-	-	-	135
	2. Total B. I.	**135**	**-**	**-**	**-**	**-**	**-**	**135**
B. II.	**Other investments**							
	1. Bearer securities and other fixed-income securities	247,174	127,802	-160,016	337	-1,204	-347	213,746
	2. Other loans							
	a) Registered bonds	9,514	-	-5,198	-	-	-	4,317
	b) Notes and loans receivable	17,635	-	-392	-	-	-	17,243
	3. Deposits with credit institutions	18,635	-	-12,958	-	-	-740	4,936
	4. Other investments	1,406	14,138	-3,082	-	-	-	12,462
	5. Total B. II.	**294,364**	**141,940**	**-181,646**	**337**	**-1,204**	**-1,087**	**252,704**
Total		**294,499**	**148,753**	**-181,646**	**337**	**-1,466**	**-1,087**	**259,390**

Other investments with a carrying amount of EUR 12,462k (previous year: EUR 1,406k) were not written down in an amount of EUR 91k (previous year: EUR 25k) due to an only temporary impairment resulting from effects over time. For Other investments, there are residual payment obligations in the amount of EUR 12,586k.

Details of shareholdings

Shares in affiliated undertakings are listed below.

List of shareholdings 2018

Name and registered office of the company Amounts in 1,000 currency units each	Amount of the share in capital in %	Currency	Equity (Section 266 Paragraph 3 of the German Commercial Code *(HGB)*)	Result of the past financial year
Shares in affiliated undertakings				
International Mining Industry Underwriters Limited, London	100	GBP	238	12

Values as at 31 December 2017.
GBP to EUR exchange rate as at 31 December 2018: 0.90279.

Fair value disclosures pursuant to Section 54 of the Regulation on the Accounting of Insurance Undertakings *(RechVersV)*

Net assets are used for shares in affiliated undertakings.

Market values are used to measure bearer securities and other fixed-income securities. They are generally based on publicly available prices and redemption prices as of the balance sheet date.

The fair values of unlisted securities with specified maturities are determined on the basis of yield curves, taking into account the creditworthiness of the respective debtor as well as the currency of the securities.

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

The fair values of the other investments are valued according to their net assets.

in EUR thousand		2018 Fair values as at 31 December
B. I.	**Investments in affiliated undertakings**	
	1. Shares in affiliated undertakings	264
B. II.	**Other investments**	
	1. Bearer securities and other fixed-income securities	214,947
	2. Other loans	
	a) Registered bonds	4,345
	b) Notes and loans receivable	17,473
	3. Deposits with credit institutions	4,936
	4. Other investments	12,371
Total		**254,336**

Prepayments and accrued income

in EUR thousand	2018	2017
Accrued interest and rents	1,600	1,819
Other prepayments and accrued income	267	610
Total	**1,867**	**2,429**

Deferred tax assets

Due to the existing income tax group with Hannover Rück SE and the exercise of the option pursuant to Section 274 Paragraph 1 Sentence 2 of the German Commercial Code *(HGB)*, no deferred taxes are recognised in the commercial balance sheet in the event of a resulting surplus of assets.

Deferred taxes are measured in Germany at a tax rate of about 32.6% and abroad at the respective local tax rate.

Notes to equity and liabilities

Capital and reserves

Subscribed capital

The Company's share capital remained unchanged at EUR 121,600k as at 31 December 2018. It is divided into 95,000,000 no-par value registered shares. The shares may only be transferred with the consent of the Company. The notional value per share is EUR 1.28.

Hannover Rück SE is the sole shareholder of the Company at the balance sheet date.

Balance sheet profit

The balance sheet profit continues to include a profit carried forward in the amount of EUR 44,205k.

Subordinated liabilities

Hannover Rück SE has granted HGS the following subordinated loans:

Issue date	Term	Interest rate	Currency	Amount
17 December 2015	17 December 2045	3.2%	GBP	54,300,000
16 October 2017	16 October 2047	3.5%	GBP	16,700,000

Technical provisions (gross)

in EUR thousand	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	Total		Of which gross provisions for claims outstanding		Of which equalisation provisions and similar provisions	
Direct written insurance business						
Casualty insurance	17,602	18,782	13,327	15,193	-	-
Liability insurance	1,072,098	1,041,986	932,077	933,974	66	56
Motor third-party liability insurance	124,697	99,348	70,769	63,278	17,171	6,721
Other motor vehicle insurance	38,741	32,774	24,273	18,549	928	-
Fire and property insurance	419,359	426,148	303,065	315,986	-	691
Of which:						
Fire insurance	260,493	243,149	190,572	183,280	-	628
Householders' comprehensive insurance	15,347	25,249	10,780	13,222	-	63
Other property insurance	143,519	157,750	101,713	119,483	-	-
Marine and aviation insurance	200,327	227,332	146,355	171,646	1,580	1,807
Credit and collateral insurance	51,298	37,701	15,317	15,371	487	72
Legal protection insurance	18,177	8,315	17,153	7,517	-	-
Assistance insurance	173	-	92	-	-	-
Other insurances	30,474	36,481	26,525	28,260	-	-
Total	**1,972,946**	**1,928,867**	**1,548,953**	**1,569,773**	**20,233**	**9,347**
Reinsurance business assumed	**146,654**	**93,784**	**96,889**	**47,727**	**2,215**	**838**
Total insurance business	**2,119,600**	**2,022,651**	**1,645,842**	**1,617,500**	**22,447**	**10,185**

Other provisions

in EUR thousand	2018	2017
Pension provisions and similar obligations	997	835
Provisions for taxes	149	494
Other provisions	10,157	9,407
Provisions for personnel expenses	6,991	5,472
Provisions for supplier invoices	2,394	3,033
Other provisions	772	902
Total	**11,303**	**10,736**

The difference amount pursuant to Section 253 Paragraph 6 Sentence 1 of the German Commercial Code *(HGB)* is EUR 261k (previous year: EUR 212k).

Notes to the Income Statement

Gross premiums written by region of origin

in EUR thousand	2018 Germany	2018 EU/EEA	2018 Third countries	2017 Germany	2017 EU/EEA	2017 Third countries
Casualty insurance	302	6,245	5,641	543	2,351	5,233
Liability insurance	5,648	89,533	184,381	4,984	50,163	178,782
Motor third-party liability insurance	4,462	51,679	42,419	-	43,785	31,801
Other motor vehicle insurance	-	11	31,245	-	1,056	33,571
Fire and property insurance	2,207	94,280	160,524	1,683	83,017	164,338
Of which:						
Fire insurance	539	58,411	124,143	1,062	52,891	101,893
Householders' comprehensive insurance	-	-5	-	-	-	17,103
Other property insurance	1,667	35,873	36,381	621	30,126	45,342
Marine and aviation insurance	6,279	49,620	32,783	7,433	48,265	37,735
Credit and collateral insurance	-	4,498	25,137	-	4,540	13,676
Legal protection insurance	-	31,613	-	-	12,084	-
Assistance insurance	-	346	-	-	-	-
Other insurances	2,800	10,316	8,550	2,247	25,067	10,650
Total	**21,698**	**338,140**	**490,680**	**16,890**	**270,328**	**475,786**

Operating expenses, net of reinsurance

in EUR thousand	2018	2017
Gross operating expenses	275,342	233,709
Of which acquisition costs	257,930	215,084
Of which administrative expenses	17,412	18,625
of which minus: outward reinsurance commissions and profit commissions received	274,136	228,815
Total	**1,206**	**4,894**

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

in EUR thousand / in pieces	2018 Gross premiums written	2018 Gross premiums earned	2018 Net premiums earned	2018 Gross expenses for claims	2018 Gross expenses for insurance operations	2018 Reinsurance balance	2018 Underwriting result for own account	2018 Number of insurance policies concluded for at least one year
Direct written insurance business								
Casualty insurance	12,189	11,522	1,477	2,220	3,431	5,030	839	6,128
Liability insurance	279,562	249,298	14,892	133,435	78,285	37,624	831	65,958
Motor third-party liability insurance	98,560	89,787	8,982	55,906	26,447	3,701	-6,900	218,593
Other motor vehicle insurance	31,256	32,227	4,409	22,288	10,640	-1,557	-78	59,457
Fire and property insurance	257,009	250,807	20,494	196,138	78,915	-26,689	1,534	470,754
Of which:								
Fire insurance	183,093	172,565	14,419	142,219	58,152	-27,470	-1,258	300,747
Householders' comprehensive insurance	-5	7,523	1,349	8,560	264	-1,677	440	58,638
Other property insurance	73,921	70,719	4,726	45,359	20,499	2,458	2,352	111,369
Marine and aviation insurance	88,682	91,768	7,567	42,519	23,152	25,108	1,171	44,923
Credit and collateral insurance	29,635	15,499	809	3,938	9,331	3,305	-815	116,105
Legal protection insurance	31,613	31,358	4,552	16,525	16,528	-1,879	184	4,347
Assistance insurance	346	260	18	118	98	37	6	13
Other insurances	21,666	25,994	3,775	20,337	6,037	-774	396	2,238
Total	850,518	798,520	66,975	493,424	252,864	43,906	-2,832	988,516
Assumed reinsurance business	96,242	97,080	11,967	94,170	22,478	-19,566	-1,653	-
Total insurance business	946,760	895,600	78,942	587,594	275,342	24,340	-4,485	988,516

in EUR thousand / in pieces	2017 Gross premiums written	2017 Gross premiums earned	2017 Net premiums earned	2017 Gross expenses for claims	2017 Gross expenses for insurance operations	2017 Reinsurance balance	2017 Underwriting result for own account	2017 Number of insurance policies concluded for at least one year
Direct written insurance business								
Casualty insurance	8,127	7,588	1,072	2,168	2,334	2,428	657	5,793
Liability insurance	233,929	238,791	16,386	160,304	61,278	14,458	2,814	284,504
Motor third-party liability insurance	75,586	67,446	6,117	49,886	19,929	-5,137	-4,089	156,690
Other motor vehicle insurance	34,627	20,468	1,324	15,769	10,869	-4,726	-852	45,196
Fire and property insurance	249,038	255,164	21,175	197,667	81,395	-26,010	2,662	350,750
Of which:								
Fire insurance	155,846	169,329	14,685	120,720	55,286	-6,922	839	263,473
Householders' comprehensive insurance	17,103	12,291	785	3,571	4,673	3,816	168	56,671
Other property insurance	76,089	73,544	5,705	73,376	21,436	-22,904	1,655	30,606
Marine and aviation insurance	93,433	99,048	7,434	56,064	20,425	19,390	1,713	33,450
Credit and collateral insurance	18,216	10,921	-617	1,008	4,577	3,764	3,368	110,844
Legal protection insurance	12,084	13,317	2,044	8,022	6,011	-931	215	3,413
Assistance insurance	-	-	-	-	-	-	-	-
Other insurances	37,964	34,145	3,701	23,241	10,586	572	-253	2,260
Total	763,004	746,888	58,636	514,129	217,404	3,808	6,235	992,900
Assumed reinsurance business	68,259	51,478	6,806	41,717	16,305	-5,761	339	-
Total insurance business	831,263	798,366	65,442	555,846	233,709	-1,953	6,574	992,900

Investment income

in EUR thousand	2018	2017
1. Income from participations	-	4,001
2. Income from other investments	4,479	4,716
3. Income from write-ups	337	110
4. Profit from the disposal of investments	340	543
Total	**5,156**	**9,370**

Investment expenses

in EUR thousand	2018	2017
1. Charges for the management of investments, interest and other investment expenses	586	604
2. Write-downs on investments	1,204	1,583
3. Losses from the disposal of investments	771	1,931
Total	**2,561**	**4,118**

Unscheduled write-downs of EUR 1,204k (previous year: EUR 1,583k) were made on bearer securities and other fixed-income securities pursuant to Section 253 Paragraph 4 of the German Commercial Code *(HGB)*.

Commissions and other compensation for insurance agents, personnel expenses

in EUR thousand	2018	2017
1. Commissions of any kind of the insurance agents within the meaning of Section 92 of the German Commercial Code *(HGB)* for direct written insurance business	222,601	189,436
2. Wages and salaries	10,347	9,673
3. Social security contributions and expenses for employee benefits	1,929	1,872
4. Expenses for retirement benefits	1,842	1,527
5. Total expenses	**236,719**	**202,508**

Other disclosures

Other income and other expenses include exchange rate gains of EUR 5,586k (previous year: EUR 4,550k) and exchange rate losses of EUR 6,302k (previous year: EUR 12,310k).

Taxes exclusively relate to the result from ordinary activities.

HGS generally hedges against currency risks by covering currency liabilities with currency-congruent currency assets. This is intended to compensate for exchange rate-induced changes in the value of currency liabilities (underlying transaction) by offsetting changes in the value of currency assets (hedging instrument). Congruently covered liabilities are combined with the assets covering them per currency to form a balance sheet valuation unit each as part of portfolio hedges. The volume amounts to EUR 145,132k (previous year: EUR 150,669k). The valuation units are accounted for using the direct booking method.

We expect annual rental payments of approximately EUR 2,229k (previous year: EUR 2,302k) from long-term rental agreements for our locations in London and Stockholm.

The average number of employees in the financial year was 126 (previous year: 110), of which 114 (previous year: 104) were full-time and 12 (previous year: 6) part-time employees.

Hannover Rück SE includes the figures from our annual financial statements in its consolidated financial statements (smallest group of companies). Moreover, our annual financial statements are also included in the consolidated financial statements of Talanx AG, Hanover, and in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hanover (the largest group of companies). These financial statements are published in the electronic German Federal Gazette. The inclusion of HGS in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Talanx AG and Hannover Rück SE exempts the Company from preparing its own consolidated financial statements pursuant to Section 291 Paragraph 1 of the German Commercial Code *(HGB)*.

Regarding the auditor's fees, use was made of the exemption provision of Section 285 No. 17 of the German Commercial Code *(HGB)* and the required disclosures are contained in the consolidated financial statements of Hannover Rück SE. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements, the management report and the IFRS reporting package. The quarterly reporting packages prepared in accordance with IFRS were reviewed by an auditor. In addition, the solvency overview as at 31 December 2018 and the provision of tax compliance services on wage tax issues were reviewed.

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

HDI Global Specialty SE has its registered office at Roderbruchstrasse 26, Hannover, and is registered with the Hannover court of registration under HRB 211924.

Supplementary report

The joint initiative of Hannover Rück SE and HDI Global SE to reorganise the worldwide specialty business within the Talanx Group led to the scheduled renaming of the International Insurance Company of Hannover SE into HDI Global Specialty SE as of January 1, 2019. Moreover, HDI Global SE acquired 50.2% of the shares of HDI Global Specialty SE ("HGS", "the Company") from Hannover Rück SE with the approval of BaFin.

Governing bodies

Board of Management

Ralph Beutter
Chairman of the Board of Management of HDI Global Specialty SE

Andreas Bierschenk
Member of the Board of Management of HDI Global Specialty SE

Thomas Stöckl
Member of the Board of Management of HDI Global Specialty SE

Richard Taylor (since 1 August 2018)
Member of the Board of Management of HDI Global Specialty SE

Supervisory Board

Torsten Leue (since 1 January 2019)
Chairman (since 26 February 2019)
Chairman of the Board of Management of Talanx AG

Ulrich Wallin
Chairman (until 26 February 2019)
Chairman of the Board of Management of Hannover Rück SE

Sven Althoff (until 31 December 2018)
Member of the Board of Management of Hannover Rück SE

Dr. Christian Hinsch (since 1 January 2019)
Chairman of the Board of Management HDI Global SE

Roland Vogel (until 31 December 2018)
Deputy Chairman
Member of the Board of Management of Hannover Rück SE

Hannover, 14 March 2019

Board of Management

Ralph Beutter **Andreas Bierschenk** **Thomas Stöckl** **Richard Taylor**