



Annual Financial Statements

2020

HDI Global Specialty SE

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This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation. The German version will be available on www.bundesanzeiger.de

Management Report

Foundations of the Group

HDI Global Specialty SE (“HGS”, “the Company”) is a Talanx Group company, pooling global activities in the field of specialty insurance. In this sector, it offers its customers tailored solutions for the agency and specialty insurance business. HGS was established in the financial year 2019 under the aegis of Talanx AG as a joint venture of HDI Global SE and Hannover Rück SE, which hold 50.2% and 49.8% of the shares. The Company has its headquarters in Hannover, Germany.

HGS writes business mainly through brokers and managing general agencies. In line with its strategy, the Company cedes large portions of the insurance business within the Talanx Group. The Company is licensed by the German Federal Financial Supervisory Authority (“BaFin”) to conduct business in all lines of property/casualty insurance as well as reinsurance in Germany and by way of freedom of services to provide services within the European Union. Moreover, HGS writes insurance business through its foreign branches both within and outside the European Union. As a company registered with the National Association of Insurers Commissioners (NAIC), the Company operates as an excess and surplus lines provider in the US market.

In the financial year 2020, the Company established additional branches in Belgium, Denmark and the Netherlands.

In the past financial year, we revised our strategy as planned and continued to focus on 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 United Kingdom (“UK”) left the European Union (“EU”) in January 2020. For the time after the transition period, which ended on 31 December 2020, a partnership agreement negotiated between the UK and the EU came into effect on 1 January 2021. The impact of the final provisions on our branch in London, UK, have not yet been conclusively assessed. Under the so-called “temporary permission regime”, we are able to continue our business without interruption, which we conduct subject to the freedom of establishment principle.

General economic and industry-related conditions

Macroeconomic development

After global economic growth had already slowed in 2019, the outbreak of the COVID-19 pandemic and the accompanying temporary standstill in public life caused a sharp drop in economic activity in the first half of 2020. Despite the subsequent recovery, global economic output declined year-on-year in 2020 – after 2009, just the second time in the past 40 years.

In Germany, this development was reflected in a sharp decline in exports. Moreover, private consumption collapsed in the government-imposed lockdown. Gross domestic product decreased by 4.9% in 2020 compared to the previous year. With a drop of probably 6.8% (previous year: +1.3%), the economic slump in the eurozone was even more severe than in Germany, due to the more serious impact of the pandemic in many countries. In the first instance, however, the increasingly expansive monetary policy of the ECB successfully prevented an even greater decline in economic output and massive rise in unemployment in 2020; this was achieved by launching new bond-buying programmes and extensive political aid measures, such as shorter working hours, and financial support for companies and private households.

In the USA, the central bank and the government have likewise reacted to the pandemic with numer-

ous measures. The fiscal stimulus alone amounted to around USD 3.8 trillion. This helped private consumption, the main growth driver of the US economy, to recover considerably, thanks in particular to consumer cheques and unemployment benefits. Nevertheless, the USA also recorded a decline in economic output of 3.5% in 2020 compared to the previous year (+2.2%). An uninterrupted upswing lasting more than ten years has thus come to an end.

In this context, the impact of political developments such as the US presidential elections in November and the UK leaving the EU at the end of the year were of secondary importance.

The COVID-19 pandemic has also left its mark on developing countries. Thanks to successful health protection measures, many Asian countries can look back on a comparatively mild impact as regards the development of the pandemic and its economic consequences. This applies first and foremost to China, whose economy was hit by the pandemic about a quarter before the rest of the world and was already able to start recovering in the spring. The People's Republic is thus one of the few G20 nations whose economic output increased year-on-year in 2020. At 2.3%, however, growth was lower than at any time since the 1970s.

The collapse in demand resulting from COVID-19 caused prices to drop significantly around the world in 2020. On top of this, oil prices fell: in the face of oversupply, the price of WTI even slipped into negative territory at times, despite the countermeasures of OPEC. In the eurozone, the annual average inflation rate fell from 1.2% to 0.3%, and in the USA it fell from 1.8% to 1.2%.

All major central banks have eased their monetary policies to counter the effects of the pandemic. The US Federal Reserve lowered its prime rate to between 0.00 and 0.25%, and launched various bond purchase and liquidity programmes. The ECB increased its refinancing operations for banks at improved conditions and expanded its bond purchases under new and existing programmes.

Capital markets

The international financial markets were also dominated by the COVID-19 pandemic in 2020. As the virus spread globally, stock markets plummeted by around 30% in February/March, oil prices crashed, and risk premiums on corporate bonds became considerably wider. By contrast, government bonds viewed as safe were in demand, for example those of Germany or the USA, whose yields fell to new historic lows. This was followed by a counter-movement, starting as early as late March and continuing over the rest of the year, which comprised the extensive monetary and fiscal policy response to the crisis and, from autumn onwards, progress in the development of vaccines.

In this context, the annual performance of the major US indices turned positive on balance, with the S&P 500 gaining 16.3%. The DAX also managed the same (+3.6%), while the EURO STOXX (-1.6%) just failed to break even. However impressive these developments were given the crisis, they pale in comparison to the performance of China (+27.0%) and the Asian emerging markets as a whole (+26.0%). The yield on ten-year German government bonds rose from its all-time low of -0.86% to -0.57%, while that on US Treasuries with the same term rose more noticeably from 0.51% to 0.91%. Bond purchases by central banks nevertheless prevented stronger increases in yields, and also ensured a marked decline in risk premiums, not only on corporate bonds but also on southern European government bonds, whose yields reached new all-time lows. As a crisis currency, gold was once again in demand in 2020. On the back of a weaker US dollar (the EUR/USD exchange rate rose by almost 10% to 1.23 over the course of the year), in the summer gold climbed above USD 2,000 per ounce for the first time ever. In a year-on-year comparison, this resulted in an increase of around 25%.

International insurance markets

International property/casualty insurance has shown resilience in the face of the COVID-19 crisis. Overall, there was slight premium growth in 2020, which was higher in emerging markets than in developed insurance markets.

Losses caused by natural disasters in the year under review were significantly higher than in the previous year - both total losses and insured losses. The highest damage total was caused by severe flooding in China from May to July, followed by cyclone “Amphan” in the Bay of Bengal. In terms of insured losses, the North America region was the hardest hit. That region experienced a new peak in hurricanes in 2020, with the most damage caused by hurricane “Laura” in August. The year also brought significantly higher severe thunderstorm losses in the USA than in the previous year, and the largest wildfires ever to occur in California and Colorado. In Europe, the balance of natural disasters was comparatively mild.

Of the developed insurance markets, North America showed the strongest growth - at a low level - while Europe recorded a slight decline in premiums. The positive development in the emerging markets was due to significant growth in China, while a decline in premium income was recorded for the other emerging markets. In Latin America, this was partly due to motor insurance, which suffered from lower new car sales as a result of the economic situation and COVID-19. Positive effects were provided in all regions by rising premiums in commercial property insurance.

In international non-life reinsurance, developments were mainly influenced by the impact of the COVID-19 pandemic. This was the driving force behind the large losses, especially in lines such as business interruption, event cancellation and trade credit insurance, and led to additional reserving. In view of greater uncertainty, the increasing price trend already observed at the beginning of 2020 continued through successive rounds of contract renewals during the year.

German insurance industry

In property/casualty insurance, the German insurance industry experienced weaker premium growth in 2020 compared to the previous year. Due to the pandemic, lower premium income in motor insurance contrasted with an overall stable development in property insurance.

Overall, claims payments were below the level of the previous year. The COVID-19 lockdowns led to increased payouts in individual lines of business, for example due to business closures or cancelled events. On the other hand, other lines of business recorded lower costs, because there were fewer traffic and leisure accidents, fewer burglaries, and also fewer insolvencies due to the suspended obligation to file for insolvency. The natural hazard balance of German property insurers in 2020 was significantly below the long-term average. No serious natural hazard events occurred.

Legal and regulatory framework conditions

Insurance companies (insurance and reinsurance), banks and capital management companies are subject to comprehensive legal and financial supervision by supervisory authorities worldwide. In the Federal Republic of Germany, this task is the responsibility of the German Federal Financial Supervisory Authority (BaFin). In addition, there are also comprehensive legal requirements for business activities. In recent years, the regulatory framework conditions have become more stringent, resulting in increasing complexity. This trend continued in 2020.

Extensive requirements of the Insurance Distribution Directive (IDD), which was translated into German law on 23 February 2018, have been implemented within the Company. The IDD aims to protect consumer interests during product development and the sale of insurance products, and formulates

requirements for product monitoring and the governance of insurance products. These topics are subject to monitoring across society, and are adapted to changing requirements as necessary.

On 25 January 2017, BaFin published Circular 2/2017 (VA) on the regulatory interpretation of the Minimum Requirements for the Business Organisation of Insurance Companies (MaGo). This explains overarching aspects of business organisation from the perspective of the supervisory authority, as well as key terms such as “proportionality” and “administrative, management or supervisory body”. Notwithstanding the fact that this document is not legally binding, MaGo will also be taken into account in the design of the Group’s business organisation, in particular in the areas of general governance, key functions, the risk management system, capital requirements, the internal control system, outsourcing, and emergency management.

In recent years, digitalisation has become increasingly important. This has been accompanied by a transition to digital, data-based business models; the resulting legal issues and challenges relating to IT security are also playing an increasingly important role at HDI Global Specialty SE. In Circular 10/2018 on Insurance Supervisory Requirements for IT (VAIT), the BaFin provided guidance on the interpretation of the provisions on business organisation in the Insurance Supervision Act, insofar as these relate to the technical and organisational equipment of companies. The same applies with regard to Circular 11/2019 on Capital Management Supervisory Requirements for IT (KAIT). These circulars are continuously being adapted and expanded. The authority has also published guidance on outsourcing to cloud providers. Furthermore, this year there were regulatory initiatives at the EU and German levels for the development, deployment and use of artificial intelligence, which also affect the insurance industry, and whose development and specific impact on the Talanx Group are being monitored.

At HDI Global Specialty SE, we process extensive personal data when handling e.g. applications, contracts and benefits. To ensure compliance with data protection requirements, such as the EU General Data Protection Regulation (GDPR) and the German Federal Data Protection Act (BDSG), the data protection management system is geared towards advising and monitoring compliance. The employees are sensitised to the careful handling of data (training) and are subject to a written obligation to comply with the data protection requirements. For process-independent data protection requirements, e.g. contracting service providers, central procedures must be complied with. The same applies to the data protection rights of customers, shareholders and employees.

For HDI Global Specialty SE, compliance with applicable laws is a prerequisite for sustained successful business activity. The Company dedicates great attention to adapting its business and products to the legal, regulatory and tax environment. The mechanisms installed to this end ensure that future legal developments and their effects on our business activities are identified and evaluated at an early stage such that we can make the necessary adjustments in good time.

Business Development

In the 2020 financial year, gross premiums written increased beyond our expectations. This is due to portfolio growth on the one hand and on the other hand to pricing developments in selected lines of specialty insurance. In addition, the company has taken over specialty insurance business from HDI Global SE. The COVID-19 pandemic has caused gross claims expenses of EUR 116.1 million.

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

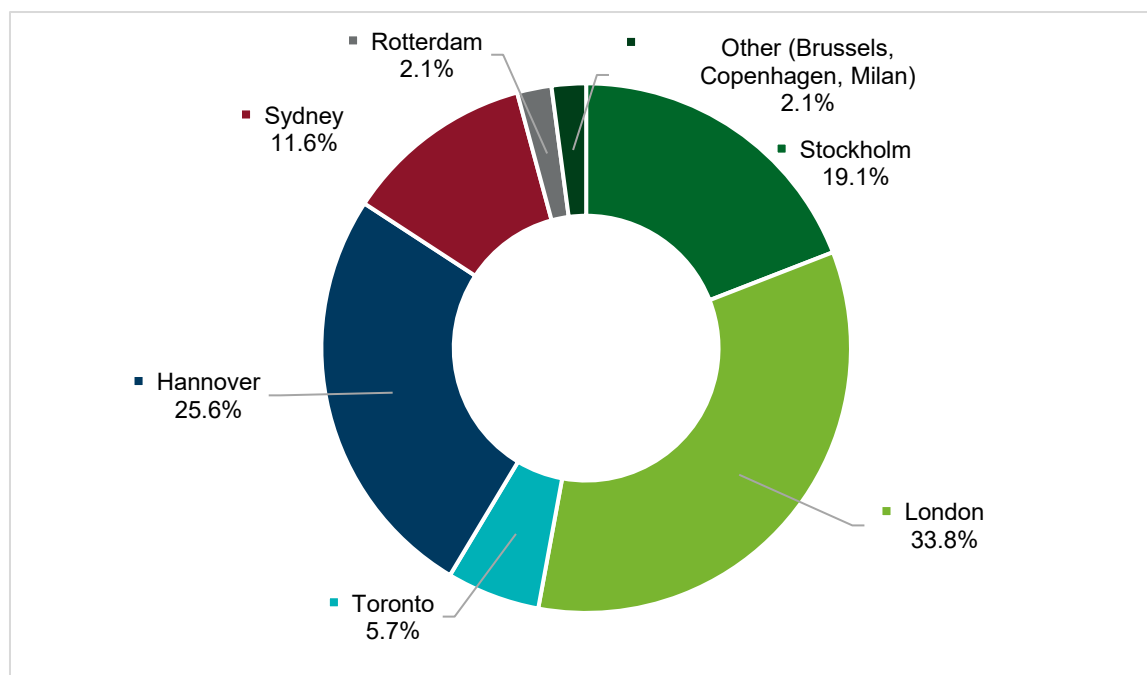
Currency (1 EUR =)	31 December 2020	31 December 2019
Australian dollar	1.60300	1.59999
British pound	0.90405	0.85201
Canadian dollar	1.57038	1.46202
Norwegian krone	10.54010	9.85300
Swedish krone	10.05600	10.43720
US dollar	1.22910	1.11895

The gross premium volume in the financial year amounts to EUR 2,013.0 million and, at 41.1%, is clearly above the level of the previous year (EUR 1,426.5 million). At EUR 1,784.0 million (previous year: EUR 1,315.1 million), the direct insurance business continued to account for the majority of this. To supplement our business we also assumed reinsurance business to a small extent. For the assumed reinsurance business we recorded gross premiums amounting to EUR 229.0 million (previous year: EUR 111.4 million).

The continued disproportionate increase in business conducted from Germany caused the share of the international branches to fall to 74.4% (previous year: 78.2%). The latter generated an absolute premium volume of EUR 1,496.9 million (previous year: EUR 1,115.6 million). They therefore continue to represent a decisive share of the gross premium income, and thus reflect the international orientation of the Company.

In the year under review, we wrote premiums of EUR 680.8 (previous year: EUR 565.0 million) via the London branch. To achieve strong premium growth in line with our strategy, both new business opportunities were used and business with existing customers was further expanded. The Stockholm branch posted gross premiums of EUR 383.8 million (previous year: EUR 311.8 million) in the 2020 financial year, thereby further expanding its market position. As in previous years, we were able to significantly expand our business at the Hannover location and generated gross premiums amounting to EUR 516.0 million (previous year: EUR 310.9 million). As in the previous year, there was a further transfer of business here from HDI Global SE, which was agreed within the framework of the joint venture. The pleasing development of the previous year continued for our Sydney location in the 2020 financial year, as reflected in particular in a significant increase in gross written premiums from EUR 95.1 million to EUR 233.4 million. Our Canadian branch based in Toronto also posted growth in gross written premiums to EUR 114.0 million (previous year: EUR 98.4 million). Our branch in Italy recorded a massive increase in new business, with a premium volume of EUR 11.1 million in the year under review. Furthermore, new branches established in the Netherlands (EUR 43.2 million), Belgium (EUR 16.2 million) and Denmark (EUR 14.5 million) also contributed to premium growth in 2020.

Gross premiums by branches



In the year under review, we continued to cede a large part of our business to the Hannover Re Group. Following the reorganisation of the specialty business, our Company also reinsured part of the business within the HDI Group in 2020. In the future, this share will gradually increase. In addition, we also use external reinsurance to a minor extent to optimally manage our risks. The gross premiums earned amount to EUR 1,788.0 million (previous year: EUR 1,219.4 million) and the premiums earned for own account amount to EUR 131.6 million (previous year: EUR 97.3 million).

The balance sheet loss ratio (gross) fell significantly during the financial year to 72.7% (previous year: 82.0%). The claims burden continues to be characterised in particular by large loss events, while the quality of the business also improved during the year under review.

The gross expenses for insured events amount to EUR 1,300.5 million (previous year: EUR 1,000.2 million).

Gross underwriting expenses increased in line with expectations due to the higher business volume and amounted to EUR 533.1 million (previous year: EUR 381.4 million) or 29.8% (previous year: 31.3%).

The combined ratio (gross) stands at 102.6% (previous year: 113.3%).

In accordance with the statutory regulations, we allocated an amount of EUR 19.7 million (previous year: EUR 11.9 million) to the equalisation reserve and similar provisions. Hence, the carrying amount of the equalisation reserve and similar provisions amounts to EUR 54.0 million (previous year: EUR 34.4 million). To the extent necessary, we supplemented the observation period on which the calculation of the equalisation reserve is based, by the loss ratios from the BaFin tables published for the insurance industry.

Due to the positive reinsurance result, we achieved a net technical result of EUR 9.0 million (previous year: EUR 7.7 million) in the past 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 net technical result.

Direct insurance business

Third-party liability

in EUR million	2020	2019
Gross premiums written	598.6	481.3
Loss ratio (%)	73.0	78.8
Net technical result	5.1	9.4

The premium volume in **liability insurance** amounts to EUR 598.6 million (previous year: EUR 481.3 million). With a premium volume of about 33.6% 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 73.0% and, hence, approx. 5.8 percentage points below the loss ratio of 78.8% in the previous year. After changes in the equalisation reserve, the net technical result amounts to EUR 5.1 million (previous year: EUR 9.4 million).

Casualty

in EUR million	2020	2019
Gross premiums written	32.7	14.5
Loss ratio (%)	40.3	41.1
Net technical result	0.1	1.1

In **casualty insurance** we were able to increase the gross premiums by EUR 18.2 million to EUR 32.7 million, thus more than doubling them. The loss ratio improved slightly from 41.1% in the previous year to 40.3% in the financial year. In total, the net technical profit amounts to EUR 0.1 million (previous year: EUR 1.1 million).

Motor vehicle

In EUR million	2020	2019
Gross premiums written	188.7	168.6
Loss ratio (%)	52.6	54.0
Net technical result	-1.8	-1.8

In **motor insurance**, the gross premiums amount to EUR 188.7 million (previous year: EUR 168.6 million). The loss ratio has improved in the year under review to 52.6% (previous year: 54.0%). The allocation to the equalisation reserve for the financial year amounts to EUR 10.1 million (previous year: EUR 8.5 million). In total, the underwriting loss for own account amounts to EUR 1.8 million (previous year: underwriting loss EUR 1.8 million).

Fire and property insurance

in EUR million	2020	2019
Gross premiums written	638.6	388.7
Loss ratio (%)	79.3	89.3
Net technical result	5.8	4.5

With a gross premium income of EUR 638.6 million (previous year: EUR 388.7 million), the **fire and property insurance** made a major contribution to our total premium income with almost one third of our premium income in direct insurance business. The increase in gross premiums written is mainly due to fire insurance. The Company achieved both volume and price effects here. The loss ratio of 79.3% in the year under review is lower than the previous year's ratio of 89.3%. After changes in the equalisation reserve in the financial year, the net technical result amounts to EUR 5.8 million (previous year: EUR 4.5 million).

Transport and aviation insurance

in EUR million	2020	2019
Gross premiums written	229.1	161.4
Loss ratio (%)	52.1	103.8
Net technical result	0.0	7.1

The gross premium volume in **transport and aviation insurance** increased in the year under review by EUR 67.7 million to EUR 229.1 million in this financial year. The increase resulted from an expansion of our business activities. The loss ratio improved, and is now 52.1% (previous year: 103.8%). The net technical result, under consideration of the equalisation reserve, amounts to EUR 0.0 million (previous year: EUR 7.1 million).

Credit and collateral insurance

in EUR million	2020	2019
Gross premiums written	32.9	31.4
Loss ratio (%)	37.9	32.6
Net technical result	-0.2	0.5

Credit and collateral insurance posted gross premiums written of EUR 32.9 million (previous year: EUR 31.4 million), representing an increase of EUR 1.5 million compared to the previous year. The loss ratio increased from 32.6% to 37.9% and thus remains at a low level. In total and after changes in the equalisation reserve, the underwriting loss for own account amounts an underwriting loss of EUR -0.2 million (previous year: EUR 0.5 million).

Legal protection insurance

in EUR million	2020	2019
Gross premiums written	8.5	25.5
Loss ratio (%)	154.6	133.9
Net technical result	-1.2	-2.5

In the year under review, business in **legal protection insurance** decreased by EUR 17.0 million to EUR 8.5 million (previous year: EUR 25.5 million). Due to unfavourable claims experience, the loss ratio increased to 154.6% (previous year: 133.9%). Consequently, we have withdrawn from sectors of the business. In total and after changes in the equalisation reserve, we achieve an underwriting loss for own account amounting to EUR -1.2 million (previous year: underwriting loss EUR 2.5 million).

Other insurances

in EUR million	2020	2019
Gross premiums written	54.9	43.6
Loss ratio (%)	133.2	55.4
Net technical result	-3.1	-10.8

In **other classes of insurance** we booked gross premiums of EUR 54.9 million (previous year: EUR 43.6 million). Other insurances include gross premiums written of EUR 0.8 million (previous year: EUR 0.4 million) from the travel assistance insurance. We concluded the financial year with a loss ratio of 133.2% (previous year: 55.4%) for Other insurances. In total, the underwriting loss for own account amounts to EUR 3.1 million (previous year: underwriting loss EUR 10.8 million).

Reinsurance business assumed

in EUR million	2020	2019
Gross premiums written	229.0	111.4
Loss ratio (%)	84.0	94.9
Net technical result	4.3	0.3

We conduct reinsurance business primarily in the third-party liability, transport and aviation, legal protection, fire and other property insurance lines. In these lines we wrote gross premiums of EUR 96.9 million, EUR 71.0 million, EUR 27.4 million, and EUR 17.5 million. In total, we achieved gross premiums of EUR 229.0 million (previous year: EUR 111.4 million), and hence expanded our reinsurance business. The increase primarily resulted from taking over business from HDI Global SE. Relative to the previous year, the lower loss ratio in the year under review of 84.0% (previous year: 94.9%) improves our net technical result to EUR 4.3 million (previous year: EUR 0.3 million).

Business ceded to reinsurers

In line with its strategic orientation, HDI Global Specialty SE transferred during the financial year most of its business ceded to reinsurers to companies of the Hannover Re Group as well as to companies of the HDI Group. Hannover Rück SE still has taken over the major portion of the business transferred to Group companies. As a consequence of the realignment of the specialty business implemented in 2020, the cessions to companies of the HDI Group will gradually increase in future. In addition, there are non-proportional reinsurance contracts with various reinsurance companies covering, among other things, high exposures to and risks of natural hazards in selected areas.

Written premiums for business ceded to reinsurers amount to EUR 1,842.5 million (previous year: EUR 1,297.3 million). The retention ratio of 9.2% is therefore slightly above previous year's level (9.1%).

From the reinsurers' perspective, the result from business ceded to reinsurers amounted to EUR -79.4 million in the financial year (previous year: EUR -184.2 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 change and currency risks.

Development of investments

The carrying amount of shares in affiliated companies and participating interests increased to a total of EUR 71,633 k (previous year: EUR 71,621 k) in the financial year. Of this amount, EUR 70,462 k are shares in affiliated companies and EUR 1,171 k are participations.

HGS's portfolio of Other investments at carrying amounts decreased in line with our expectations in the year under review from 327,160 k to EUR 309,871 k. Significant disposals in this context relate to bearer bonds and other fixed-income securities as well as promissory notes and loans.

The distribution of the various investment classes within Other investments for the year under review is as follows. The share of bearer bonds and other fixed-income securities increased slightly to 88.0% (previous year: 85.5%). Accordingly, the share of Other loans continued to decline from 4.9% to 2.3%. Deposits with credit institutions amounted to 2.8% (previous year: 3.8%) as of the reporting date. The

Other investments consist exclusively of shares in real estate funds subscribed for the first time in the 2017 financial year, and contribute 6.9% (previous year: 5.8%) to our Other investments.

The composition of Other investments by rating classes changed slightly compared to the previous year. The overwhelming share continues to be invested in AAA-rated investments, which account for approx. 52% (previous year: 51%) of the Other investments. The share of AA-rated investments decreased to approx. 20% (previous year: approx. 27%). Individual securities with an A rating account for approx. 14% (previous year: approx. 8%) of our portfolio. The share of Other investments with a BBB rating amount to approx. 7% (previous year: 8%). Investments with a BBB rating and without a rating are at the same level as the previous year. They account for a proportion of approx. 14% (previous year: 14%). Of this, approx. 7% (previous year: approx. 6%) relates to real estate funds with no rating. Consequently, the confidence level of our portfolio as a whole remains similar to the previous year.

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 6,037k at the reporting date (previous year: EUR 3,723 k). Of this amount, EUR 5,243 k (previous year: EUR 2,949 k) are bearer bonds and other fixed-income securities, and EUR 3 k (previous year: EUR 123 k on balance) are registered bonds and promissory note loans. There are hidden liabilities of EUR 216 k (previous year: EUR 55 k) in Other investments.

Investment income

The current investment income in the year under review amounts to EUR 6,978 k (previous year: EUR 5,339 k) and is attributable in the amount of EUR 6,978 k (previous year: EUR 5,188 k) to current interest income from bearer bonds and other fixed-income securities.

The result from the disposal of investments amounts to EUR 464 k (previous year: EUR 864 k) and consists of gains on disposal of investments amounting to EUR 960 k (previous year: EUR 1,008 k) and losses on disposal of investments amounting to EUR 496 k (previous year: EUR 144 k).

Impairment losses on investments amounts to EUR 554 k (previous year: EUR 1,098 k) and are attributable to bearer bonds and other fixed-income securities, which were valued according to the strict lowest value principle. Reversals of impairment losses on investments for which depreciation was recorded in the previous year amount to EUR 285 k (previous year: EUR 649 k).

The management of investments caused expenses of EUR 656 k in the financial year (previous year: EUR 583 k). The total investment income amounts to EUR 6,517 k (previous year: EUR 5,171 k).

Other income/expenses

The other result consists of other income of EUR 27,107 k (previous year: EUR 21,325 k) and other expenses of EUR 62,842 k (previous year: EUR 44,684 k), resulting in a loss on balance of EUR 35,735 k (previous year: loss of EUR 23,539 k) as other income/expenses.

Overall result

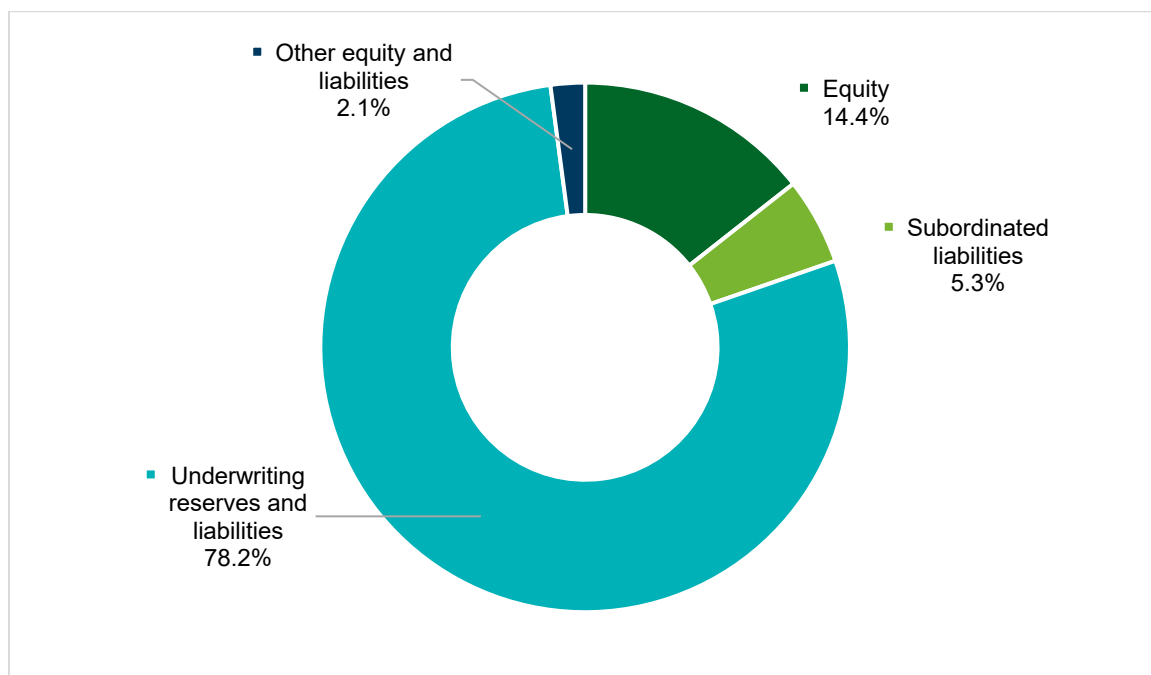
The financial year ended with a loss of EUR 23,875 k (previous year: loss of EUR 12,818 k). An amount of EUR 2,061 k was withdrawn from the capital reserve in accordance with Section 272 Para. 2 No. 4 of the German Commercial Code (HGB). Balance sheet profit amounts to EUR 11,591 k (previous year: EUR 33,405 k).

Capital structure

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

Overall, our capital structure is highly consistent compared with the previous year. With 14.4% (previous year: 21.4%) of the balance sheet total, equity continues to be 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 5.3% (previous year: 7.1%) of the balance sheet total. With the nominal values remaining unchanged, the decline was caused, in particular, by the increase in the balance sheet total due to the expansion of business. The share of the technical provisions and liabilities amounting to 78.2% (previous year: 67.3%) is above the previous year's level.

Capital structure on the reporting date



Branches

In the 2020 financial year, HDI Global Specialty had the following branches:

- Brussels, Belgium
- Copenhagen, Denmark
- London, United Kingdom
- Stockholm, Sweden
- Milan, Italy
- Rotterdam, Netherlands
- Sydney, Australia
- Toronto, Canada

Outsourcing

Asset investment and management were transferred to Ampega Asset Management GmbH, Cologne, under an outsourcing agreement. The function of internal auditing is performed by the Internal Auditing department of Talanx AG and partially also by the Internal Auditing department of Hannover Rück SE. The processing of claims in the legal protection insurance line of business in the branch office in Stockholm, Sweden, was transferred to Svedea Skadeservice AB in Stockholm.

IT

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

Employees

As of 31 December 2020, the Company had 397 employees (previous year: 264).

Our employees

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

The aim of HR work at HDI Global Specialty SE is to ensure sustainable, profitable growth for the company. This is achieved with the right staff in the right place, with the right tasks and with the right support. The principles of value-oriented leadership and a culture of togetherness are at the heart of everything we do. Effective and efficient HR processes and services are needed to compete for the top talent of the future and to meet the challenges of demographic change. HR support, HR marketing, initial vocational training and HR development are elementary components of Group-wide HR work. The employees of HDI Global Specialty SE are characterised by a high level of professionalism, above-average commitment, creativity, flexibility and value orientation, but also increasingly by a high degree of agility, especially when it comes to digitalisation.

HR marketing

The core tasks of HR marketing are to increase the attractiveness of HDI Global Specialty SE as an employer and brand recognition of the company, and to support the recruitment of suitable and high-quality candidates from the defined target groups. In addition to law and economics, this also includes people with knowledge in STEM subjects, i.e. science, technology, engineering, and mathematics. The departments contact potential candidates through channels including events, career fairs, and partnerships with selected universities. In addition, cooperation with the Leibniz University of Hannover has intensified within the framework of a partnership with the House of Insurance.

HR development

HR development allows employees of HDI Global Specialty SE and the entire Talanx Group to broaden or consolidate their skills in potential, divisional and management development programmes, thus preparing them for taking on more advanced functions. Induction programmes then provide support in establishing themselves as they take on new duties. These programmes continue to be of great importance for the development and retention of employees with potential.

The agile and digital transformation has a significant impact on our learning needs and opportunities, as well as on our personal learning behaviour. The range of digital learning content has thus been expanded.

Employees who work in sales fulfil their statutory obligation to attend further training, participating in particular in specialised seminars and sales training courses for specific lines of business.

Remuneration

HDI Global Specialty SE offers its employees attractive remuneration packages. For senior executives, the remuneration currently consists of a fixed component and a variable component based on success and performance. The distribution is determined by the responsibility or function level of a position, which is determined by a standardised job evaluation system. The amount of the variable remuneration itself is determined by the achievement of individual targets, as well as Group and division targets.

Thanks to the employees

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

Sustainability at HDI Global Specialty SE

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

Information on sustainability factors within the Talanx Group can be found in the non-financial statement in the Talanx Group Annual Report as well as detailed explanations in the Talanx Group Sustainability Report and online at <https://www.talanx.com/en/talanx-group/sustainability/>.

Risk report

Our ultimate goal

As the dedicated specialty insurer of the Talanx Group, HGS offers tailor-made insurance solutions in selected special and niche markets, which are mainly distributed via brokers and managing general agencies or underwriting agents. The HGS business model is divided up into two segments – delegated authority business and single risk business. In both segments, the product portfolio of HGS comprises not only the Aviation, Space, Transport, Bloodstock, Legal Expenses, Manager's Liability, M&A, Events, Securities, Kidnap & Ransom lines of business, but also Mining insurance. However, a niche market can also be characterised by other criteria. HGS also offers supplementary services for its shareholders. The company's network of branches allows HGS to provide customer and sales partner-oriented support in the respective markets while simultaneously maintaining its global orientation. To be able to take advantage of business opportunities whenever they arise, the Company aims at maintaining an adequate capital resources at all times. Moreover, the Company follows the risk-adjusted return requirements. In addition, risk management of HGS is embedded in the risk management system of the Talanx Group. Risk management and monitoring is therefore not only performed at the level of HGS, but additionally also at the level of HDI Global SE and the Talanx Group.

Strategy implementation

Our corporate strategy identifies the principles that will enable us to realise our vision of being recognised as an expert top provider of specialty insurance. A characteristic feature of HGS should be that business partners are served in a solution-oriented manner and with excellent service. High-performing employees should find an attractive workplace with the necessary freedom to act. With efficient processes and a responsible and transparent organisation, HGS aims to sustainably achieve a competitive position for the Talanx Group in the top quartile of the most profitable specialty insurers. For HGS, its shareholders are also its preferred reinsurance partners.

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 sustainability, integrity and compliance.

The risk strategy further specifies the objectives of risk management and documents our understanding of risk. We have defined ten overriding principles in the risk strategy:

1. We comply with the risk appetite defined by the Board of Directors.
2. We anchor risk management in the decision-making processes of the Company.
3. We promote an open risk culture and the transparency of the risk management system.
4. We support the 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 and qualitative methods.
8. Through our organisational structure we ensure that the individual risk management functions are independent of one other.
9. We utilise suitable methods to manage our risks.
10. We continuously develop ourselves further in order to adequately address changes in our risk profile.

Our risk strategy identifies our core risks, risk-bearing capacity and risk tolerance. It is the central element in our handling of risks. We review the risk strategy, the risk register, the guidelines for managing operational 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 made targeted use of the growth opportunities that arose from the strategic orientation of the Company in combination with the hardening markets. In both agency and individual risk business, new business relationships were established and existing connections expanded, building on the structures created in previous years. Growth was supported by strengthening the existing workforce and the HDI brand, expanding the underwriting teams, and through the sales capacities of the new branches in Belgium, the Netherlands and Denmark.

Both the COVID-19 pandemic and the high frequency of claims from natural hazards reinforced the hardening trends already detected in conditions and prices, and subsequently accelerated the increase in HGS's business volume. This was possible because the business operations of HGS and its internal and external outsourcing partners continued almost unchanged on a working-from-home basis. Another favourable effect was that customers treat insurance spending as non-optional, and in fact tend to buy more protection in volatile times. The COVID-19 pandemic is a significant large loss event for HGS, particularly in the film industry and event cancellation lines, and has a corresponding impact on the technical performance in 2020. The terms and conditions for coverage of losses caused by a pandemic have often been structured in the manner customary for the market, resulting in different interpretations, which are now being clarified in court in some countries. In lines such as aviation, art insurance and credit, it is necessary to offer clients high capacities. In order to match this offer with the risk appetite of HGS, external reinsurance capacity is purchased. Pricing pressure and capacity shortages can also be observed in the reinsurance markets.

The recruitment and integration of new employees continues to be a challenge for HGS, as does the further development of the organisational structure and procedures. The ongoing improvement of outsourcing management is of particular importance for HGS. To successfully cope with the anticipated higher number of units as well as the envisaged expansion of vertical integration, a project was set up to introduce an inventory management system, which is expected to result in a higher degree of automation and also a better service level for our customers. Existing initiatives to modernise the IT landscape, in particular the expansion of a data warehouse, were advanced further, and digitalisation was boosted by the COVID-19 pandemic (introduction of MS Teams/use of electronic signatures).

The Federal Financial Supervisory Authority granted HGS authorisation as of 1 October 2020 to use the Specialty Internal Model for the calculation of solvency capital requirements. In contrast to a standard model, an internal capital model enables HGS to best reflect the risk structure of the specialty insurance business and investments.

To counter the consequences of the Brexit process, HGS took a number of measures at an early stage. HGS was thus included in the so-called "temporary permissions regime" (TPR) by the Prudential Regulatory Authority (PRA). This status allows HGS to continue its business, progressively expanding the UK branch into a third country branch before the expiry of the TPR. In addition, the EEA portfolio was transferred from the UK to Germany and customers were notified accordingly. There are currently still a number of other open issues in connection with Brexit. We expect further clarification from the legislators and supervisory authorities over the coming months.

HGS expects that monetary policy measures to mitigate the effects of the COVID-19 pandemic will continue to keep interest rates low in the capital markets. We actively seek an attractive risk/return ratio. The volatility of exchange rates is another significant external factor influencing risk management.

Risk capital

In the interest of its policyholders and shareholders, HGS ensures an appropriate ratio between risks and equity. Our quantitative risk management is based on our internal capital model, the Specialty Internal Model, and 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 fields 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 and exchange rates, but also insurance-specific indicators like the number of natural disasters in a particular region and the insured damage amount per catastrophe. When determining the probability distributions for the risk factors, we make use of historical and publicly available data as well as internal data. Moreover, the process is complemented by the knowledge of internal and external experts.

Organisation and processes of risk management

To ensure an efficient risk management system, HGS has anchored the position of Chief Risk Officer on management level, established a risk management function, and set up an Audit, Compliance and 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 risk controlling, actuarial and compliance key functions. These units are responsible for surveillance. The third line of defence consists of Internal Auditing.

Key elements of our risk management system

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

The guidelines specify, among other things, the tasks, rights and responsibilities, the organisational framework conditions and the risk control process. The regulations are derived from the corporate and risk strategy and also take into account the supervisory requirements for risk management.

Risk-bearing capacity concept

Calculating the risk-bearing capacity includes determining the overall risk coverage potential available and calculation of the funds required to cover all risks. This is carried out in line with the specifications of the risk strategy and the risk appetite defined by the Board of Directors. Our internal capital model is used to assess the individual risks that can be quantitatively assessed and the overall risk position. A central system of limits and threshold values is in place to monitor material risks. This system comprises the limits and thresholds derived from the corporate strategy. Compliance is monitored on an ongoing basis.

Risk identification

Regular risk identification is an essential information basis for monitoring risks. The identified and material risks are documented in the risk register, but also within the framework of regular risk reports. Risks are identified, 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 difficult or impossible are assessed qualitatively, e.g. strategic risks, reputational risks, and emerging risks. The quantitative assessment of the material risks and the overall risk position is carried out by applying the internal capital model of HGS, the Specialty Internal Model. This takes into account risk concentration and risk diversification.

Risk management

The control of all material risks, both individual and at a portfolio level, is the responsibility of the operating units. The identified and analysed individual risks are either consciously accepted, avoided or reduced. Decisions made by the operational units of the first line of defence always consider the chance/risk ratio. Risk management is supported amongst other things by the requirements of the subscription and investment guidelines and by defined limit and threshold values.

Risk monitoring

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

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 disaster scenarios. Risk reporting focuses not only on the current but also on the expected risk situation. In addition to regular reporting, internal immediate reports on major and short-term risks are pre-

pared as required.

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

Process-integrated and independent monitoring and quality assurance

The management is responsible for the proper business organisation of the Company, irrespective of the internal rules of responsibility. This also includes monitoring the internal risk management and control system. Process-independent monitoring and quality assurance of risk management is carried out by the Auditing department and external bodies (supervisory authorities and auditor).

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 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 Directors regarding 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 level of reserves is an important indicator for risk management. We fundamentally 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).

A high diversification effect is achieved by underwriting business in different lines of business and different regions with different business partners via the most diverse distribution channels. In addition, the active limitation of concentration risks, such as natural disasters, strengthens the diversification effect. The degree of diversification is measured in our internal capital model.

The reserve risk, i.e. the risk of under-reserving for losses and the resulting strain on the underwriting result, is of special importance in our risk management. A conservative level of reserves is important for us. To counter the risk of under-reserving, we calculate our loss reserves on the basis of our own actuarial assessments. The IBNR reserve is formed in accordance with the relevant provisions for losses that have already occurred but have not yet come to our attention. The classes of 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 run-off triangles we use. They show how the provision has changed over time as a result of the payments made and the recalculation of the provision to be formed as at the respective reporting date. The appropriateness of these is monitored by our actuarial department. On an annual basis, quality assurance of our own actuarial calculations regarding the adequacy of the reserve amount is additionally performed by external actuarial and auditing companies.

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

Market risks

In view of the challenging capital market environment, the preservation of the value of our investments and the stability of our rate of return are of great importance. HGS therefore bases its portfolio on the principles of a balanced risk/return ratio and broad diversification. Based on a low-risk investment mix, the investments reflect both currencies and maturities of our liabilities. Market risks include equity, interest rate, 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.

A stress test was conducted for our capital investments.

	Change in EUR million	Change in %
- 50 bp	4.3	0.9
- 100 bp	8.6	1.8
+ 50 bp	-4.1	-0.8
+ 100 bp	-8.1	-1.7
+ 200 bp	-15.8	-3.2

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 material risk management measures. Duration bands have also been installed within which the portfolio is being positioned in line with market expectations. The portfolio of fixed-income securities is exposed to the interest rate change risk. Falling market yields lead to increases in the market value and rising market yields to decreases in the fair value of the fixed-income securities portfolio. In addition, the credit spread risk exists. The credit spread is the difference in interest rates between a high-risk bond and a risk-free bond with identical maturities. Changes in these risk premiums observable on the market lead to changes in the market value of the corresponding securities analogous to changes in pure market yields.

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

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

Bad debt risk

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

Since a majority 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 predominantly to companies in 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 run-off of the reinsured business, also internal and external expert assessments are used for the selection of reinsurers in addition to the minimum ratings of the rating agencies Standard & Poor's and A. M. Best. The bad debt risk from companies of the Talanx Group is monitored using the internal capital model. In particular, we also monitor our relationships with brokers, managing general agencies and claims managers who are exposed to a risk, for example through the possible loss of premiums paid by policyholders to business partners. We reduce these risks, for example, by reviewing broker relationships for criteria, such as professional liability insurance, payment behaviour and proper contract execution.

Operational risks

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

With the help of self-assessments, we determine the maturity level of our risk management system and define areas for improvement. Evaluation is performed e.g. by assessing the maturity level of the relevant risk analysis or risk management function, or of risk monitoring and reporting. For determining the capital tie-up in our internal model, we use the Self-Assessment of Operational Risks procedure, which enables us to determine future operational loss scenarios.

Within the overall framework of operational risks, we consider in particular business process risks (including data quality), compliance risks, function outsourcing risks, 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 instance, as a result of inadequate process organisation. Here, data quality is a critical success factor. By continuously optimising our processes, we 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-screening software, parts of the underwriting portfolio of HGS as well as payment transactions are filtered by persons and companies that are subject to sanctions. If such persons or companies are discovered, appropriate measures are taken.

The responsibilities within the compliance organisation are regulated and documented. Interfaces with risk management are established. Regular compliance training programmes supplement the range of 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 significant outsourcing. Within the framework of such analysis, it is examined, among other things, which specific risks exist and whether outsourcing is possible at all. In particular, when insurance-specific activities are outsourced, risks are reduced by carefully selecting the agencies and claims managers, agreeing binding underwriting and loss adjustment guidelines and performing regular reviews.

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

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 IT 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 are 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 e.g. 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.

The United Kingdom of Great Britain and Northern Ireland (UK) left the European Union on 31 January 2020. The withdrawal agreement agreed between the EU and the UK ended on 31 December 2020. On 24 December 2020, the EU and the UK concluded a trade and partnership agreement which came into force on 1 January 2021. Although the agreement also covers financial services, it grants reciprocal rights only in the same way as in the EU's other free trade agreements with third countries. The agreement thus obliges both parties to keep their markets open for services through branch offices. The parties undertook to try to establish a memorandum of understanding on the creation of a framework for regulatory cooperation in financial services by March 2021.

In the UK, branches of EU insurers must apply for permits. Under the Temporary Permissions Regime (TPR), the respective branch can continue its business after expiry of the aforementioned transitional period until the final decision is made on its application for authorisation in the UK. An application for a business plan extension must likewise be submitted to the Federal German Financial Supervisory Authority (BaFin) for this branch. HGS is monitoring the current situation very closely and considers itself well positioned for future developments.

HGS is countering potential risks from the COVID-19 crisis with numerous risk mitigation measures. These include a conservative investment policy, strict asset/liability management, close liquidity monitoring, a customer-oriented approach, and digitalisation. In addition, appropriate business continuity measures (BCM) have been implemented to enable business operations to be maintained in the current situation, both within Germany and abroad.

Other risks

Under the heading of other risks, the most significant for us are emerging risks, strategic risks, reputational risks and liquidity risks.

Emerging risks are characterised by the fact that their risk content 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 in our Company of current and potential customers, business partners and employees, or the greater public and our shareholders, may be damaged. This risk can jeopardise the business basis of HGS. A good corporate reputation is therefore a basic pre-

requisite for our business. Reputational risks may arise from all business activities of HGS, but also of other market players.

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, which additionally takes matching currency cover into consideration. Beyond the foreseeable payouts, a liquidity risk could be posed by unexpected and extraordinarily high payouts, e.g. due to a catastrophe, which is countered in actuarial practice by so-called cash calls on reinsurers.

We manage the overall liquidity of our portfolio of corresponding government and corporate 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

Profitable growth

As a broad-based provider of specialty insurance, HDI Global Specialty SE enjoys excellent growth perspectives. The close business relationships we have built up over the years with our sales partners in the various regions or specialty segments continue to provide significant impetus for substantial organic expansion of the portfolio. Our branch network allows us to seize numerous opportunities in a positive market environment. The ownership structure as a joint venture opens up opportunities for the cooperation with Hannover Rück SE and HDI Global SE. The cross-divisional segment expertise in the specialty segment will be combined in one place and will then be able to focus on particularly profitable and high-growth market segments.

Digitalisation

Digitalisation is opening up opportunities for us, because the business model of HDI Global Specialty SE is fundamentally suited to the needs of insurtech and start-ups. We also have cyber insurance products in our product range. This enables us to offer our customers solutions for this changed risk situation. In addition, HGS sees opportunities to improve pricing and risk selection in suitable sub-portfolios with the help of artificial intelligence. The use of web portals is opening up sales opportunities for niche products in the marine and aviation sectors.

Emerging risk

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 class actions and medical progress were analysed during the year under review.

New products process

If a new business opportunity is to be implemented in concrete terms, the so-called New Products Process will generally be completed, provided that the criteria defined for this by risk management are met. This process is supported by HGS's risk management. 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 where the operational risk has changed significantly, or where the risk to be insured is new, or where the liability is substantially higher than the previous scope of coverage. If this is the case, all significant internal and external influencing factors will be examined in advance and evaluated by risk management. Furthermore, it is ensured that the Executive Directors approve the new insurance product before its application or sale.

Overall assessment of the management

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

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

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

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

Outlook

Our statements below are based on well-founded expert assessments by third parties, as well as on the planning and forecasts we consider to be conclusive; nevertheless, they are our subjective assessment. It can therefore not be ruled out that actual developments will deviate from the expected development shown here.

Economic boundary conditions

The recovery of the global economy during the winter half-year, which began in the third quarter of 2020, has once again been slowed by the imposition of renewed lockdown measures around the turn of the year. We nevertheless expect the upswing to resume over course of the year, with vaccinations increasing and the various monetary and fiscal policy support measures of the past year developing their full effect. Given the low starting point of economic performance after the crisis year 2020, the strongest growth of the global economy since the Global Financial Crisis seems quite realistic for 2021. Most national economies around the world are expected to return to pre-crisis levels of economic performance as early as this year, or next year at the latest. The largest risk we can see is that longer-lasting measures to contain the pandemic could delay a significant economic upswing until the second half of the year.

Within the eurozone, the funds from the Next Generation EU programme will only be available later in the course of the year. With the usual delay, the effects of the ECB's flood of liquidity should then become apparent. An additional growth impulse could result from consumption postponed in lockdown times (e.g. travel, restaurant visits, etc.), as long as higher unemployment figures do not cause a return of "panic saving". In this context, there are strong suggestions for the strongest growth in 2021 since the monetary union was founded in 1999. We perceive material risks in the aftereffects of Brexit, a sharp rise in insolvencies, and significant delays in vaccinating large parts of the population.

A comparable picture applies in the USA. In addition, the Democratic Party of the new US President Biden won a majority in both chambers of Congress at the beginning of his term, which should pave the way for further support measures for businesses, private households and local governments. Moreover, we believe it is likely that the US administration's focus will return to potentially growth-damaging issues only after the crisis has been overcome, such as ongoing unresolved international trade conflicts, especially with China, and tax increases.

The recovery narrative also applies in principle to the emerging markets. However, while more successful pandemic control means many Asian economies are already nearing their pre-COVID-19 growth trajectories, the potential for catching up remains more pronounced in Latin America in particular, but also in Central and Eastern Europe.

Capital markets

Against this backdrop, it is unlikely that central banks around the world will be willing to damage the economic recovery by scaling back their expansionary monetary policy measures too early or too far. We expect prime rates in the eurozone and USA to remain at their current levels until the end of the year.

This should also limit any increase in yields on German government bonds or US Treasuries resulting from the economic recovery, while the risk premiums on government and corporate bonds with lower credit ratings should remain largely stable. Short-term widening of spreads in the event of faltering vaccination progress or economic setbacks can by no means be ruled out, however.

Despite the impressive recovery since last spring, rising corporate profits on the back of the economic upswing mean that we still see further potential, albeit limited, for stock market growth over the year. In view of the fragile environment, there is a high likelihood of interim setbacks.

Insurance sector

In the international property/casualty insurance sector, we expect repeated attractive growth in premium income during 2021. We expect comparatively strong growth momentum in both the developed insurance markets and the emerging markets. In the latter, growth is likely to be even more dynamic. Profitability is expected to remain stable in 2021, thus requiring a high degree of underwriting discipline as interest rates remain low. For the developed European insurance markets, we expect premium income to increase in 2021 compared to the year under review; growth in North America is expected to be at a similar level. We believe that one of the driving forces behind this development is further hardening of the market for commercial and industrial insurance, especially in industrial property/casualty insurance. For Central and Eastern Europe and for Latin America, we expect small positive developments. The strongest growth momentum in the coming year is likely to be from Asia, and particularly from China.

Outlook for the business as a whole

The 2020 financial year was significantly marked by the COVID-19 pandemic. Despite expected ongoing effects, we anticipate a significant improvement in the underwriting result for 2021 due to the continued profitability of certain lines of business, as well as the sustained normalisation of the large loss situation.

We assume that loss expenditures will normalise despite the lingering effects of COVID-19. Due to growth in premiums, we expect a significantly improved loss ratio. The sustainable focus on profitability of the portfolio is resulting in a significantly improved frequency loss ratio.

The innovative capability and service orientation are becoming increasingly important in the insurance industry. We are implementing numerous projects to shape the digital transformation, harmonising and optimising the process and IT landscape worldwide. Despite the necessity for corresponding investments, we expect the gross expense ratio to remain constant.

As a result of the assumptions made, we expect a significantly improved net combined ratio before equalisation reserve.

In 2020, the global pandemic (COVID-19) led to high levels of uncertainty in the capital markets, negative economic growth, and a further tightening of low interest rates. In our view, 2021 will also be characterised by high levels of uncertainty, and low interest rates will continue unchanged, which will have a further negative impact on ongoing interest on new investments. In order to partially compensate for these declining yields, investments will continue to be made in promising alternative investments. In 2021, we anticipate an investment income result slightly below the level of 2020.

Due to the aforementioned developments, we expect a significantly improved overall result in 2021, which is due in particular to the normalised claims experience.

Report on relations with affiliated companies

The report on relations with affiliated companies to be prepared by the management according to Section 312 of the German Stock Corporation Act (AktG), stated that, considering the circumstances known at the time when the legal transactions were contracted, HGS received appropriate consideration for each legal transaction with an affiliated company. No measures subject to reporting obligations were undertaken in the year under review.

Classes and types of insurance operated

Direct insurance business

Casualty insurance (not including casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor vehicle insurance

Fire insurance

Householders' comprehensive insurance

Homeowners' comprehensive reinsurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal protection insurance

Travel assistance insurance

Other insurances

Reinsurance business assumed

Casualty insurance (not including casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor insurance

Fire insurance

Householders' comprehensive insurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal protection insurance

Other insurances

Annual Financial Statements

Balance sheet as of 31 December 2020

Assets (in EUR thousand)	31 December 2020			31 December 2019
A. Intangible fixed assets				
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets			4,930	7,066
B. Investments				
II. Investments in affiliated companies and participations				
1. Shares in affiliated companies		70,462		70,462
2. Participations		1,171		1,159
			71,633	71,621
III. Other investments				
1. Bearer bonds and other fixed-income securities		272,628		279,875
2. Other loans				
a) Registered bonds	4,028			4,173
b) Promissory notes and loans	2,999			11,732
		7,027		15,905
3. Deposits with financial institutions		8,734		12,500
4. Other investments		21,482		18,880
			309,871	327,160
IV. Deposits retained on assumed business			1,353	2,050
			382,857	400,831
C. Receivables				
I. Receivables arising from direct insurance business due from insurance intermediaries			786,956	570,462
II. Receivables from reinsurance business			114,939	49,138
of which due to affiliated companies: EUR 67,022 k (previous year: EUR 5,888 k)				
III. Other receivables			6,962	6,925
of which due to affiliated companies: EUR 1,502 k (previous year: EUR 2,957 k)			908,857	626,525
D. Other assets				
I. Tangible fixed assets and inventories			1,647	882
II. Current accounts with financial institutions			185,831	122,241
			187,478	123,123

Amount carried over			1,484,122	1,157,545
E. Accrued and deferred items				
I. Deferred interest and rents			1,966	2,166
II. Other accrued and deferred items			1,107	956
			3,073	3,122
Total assets			1,487,195	1,160,667

Equity and liabilities (in EUR thousand)	31 December 2020			31 December 2019
A. Equity				
I. Subscribed capital			121,600	121,600
II. Capital reserve			78,221	80,282
III. Retained earnings				
1. Statutory reserve			3,040	3,040
IV. Balance sheet profit			11,591	33,405
			214,452	238,327
B. Subordinated liabilities			78,535	83,333
C. Technical Provisions				
I. Unearned premium reserve				
1. Gross amount		852,647		668,838
2. Less: share for business ceded to reinsurers		702,478		550,019
			150,169	118,819
II. Provisions for outstanding claims				
1. Gross amount		2,331,255		1,978,862
2. Less: share for business ceded to reinsurers		2,134,129		1,803,712
			197,126	175,150
III. Equalisation reserve and similar provisions			54,032	34,369
IV. Other technical provisions		0		
1. Gross amount		0		0
2. Less: share for business ceded to reinsurers		0		0
			0	0
			401,327	328,338
D. Other provisions				
I. Provisions for pensions and other post-employment benefits			1,676	1,391
II. Provisions for taxes			1,444	1,019
III. Miscellaneous other provisions			18,888	14,967
			22,008	17,377

Amount carried over			716,322	667,375
E. Funds withheld under reinsurance treaties			10,847	19,084
F. Other liabilities				
I. Liabilities from direct insurance business due to intermediaries		55,530		18,433
II. Accounts payable on reinsurance business		693,910		424,426
of which due to affiliated companies: EUR 640,252 k (previous year: EUR 421,663 k)				
III. Other liabilities		10,586		31,349
of which taxes: EUR 1,860 k (previous year: EUR 6,691 k) due to affiliated companies: EUR 2,369 k (previous year: EUR 2,046 k)			760,026	474,208
Total equity and liabilities			1,487,195	1,160,667

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 341f and Section 341g of the German Commercial Code (HGB

Hannover, 24 March 2021

Dr. Wegener, Responsible Actuary

Statement of income

in EUR thousand

	2020		2019
	1 January - 31 December		1 January - 31 December
I. Technical account			
1. Premiums earned for own account			
a) Gross premiums written	2,012,953		1,426,473
b) Premiums ceded to reinsurance	1,842,453		1,297,321
		170,500	129,152
c) Change to the gross premium reserve unearned	-224,999		-207,048
d) Adjustment of reinsurers' share in gross premiums unearned	186,133		-175,212
		-38,866	-31,836
		131,634	97,316
2. Other underwriting income for own account		18	163
3. Expenses on insurance claims for own account			
a) Claims payments			
aa) Gross amount	807,222		716,884
bb) Reinsurers' share	723,451		649,116
		83,771	67,768
b) Changes to the provision for outstanding claims			
aa) Gross amount	493,324		283,382
bb) Reinsurers' share	459,502		264,910
		33,822	18,472
		117,593	86,240
4. Changes to other net underwriting provisions			
a) Other net underwriting provisions		0	-275
		0	-275
5. Expenses on profit-related and not profit-related premium refunds for own account		0	792
6. Expenses for insurance operations for own account			
a) Gross expenses for insurance operations		533,113	381,480
b) Less: commissions and profit shares received for business ceded to reinsurance		552,789	392,319
		-19,676	-10,839
7. Other underwriting expenses for own account		5,065	1,958
8. Subtotal		28,670	19,603
9. Change to claims equalisation reserve and similar provisions		19,664	11,922
10. Underwriting Result for own account		9,006	7,681

in EUR thousand

	2020		2019	
	1 January - 31 December		1 January - 31 December	
II. Non-underwriting account				
1. Investment income				
a) Income from equity investments of which: from affiliated companies EUR 0 k (previous year: EUR 151 k)		0		151
b) Income from other investments				
aa) Income from other investments	6,978			5,188
		6,978		5,188
c) Income from write-ups		285		649
d) Gains on disposal of investments		960		1,008
			8,223	6,996
2. Investment expenses				
a) Investment management expenses, inter- est expenses and other expenses re- lated to capital investments		656		583
b) Write-downs of investments of which unscheduled write-downs according to Section 253 Paragraph 3 Sentence 6 of the German Commer- cial Code (HGB) EUR 0 k (previous year: EUR 0 k)		554		1,098
c) Losses on disposal of investments		496		144
			1,706	1,825
			6,517	5,171
			6,517	5,171
3. Other Income			27,107	21,325
4. Other expenses			62,842	44,684
			-35,735	-23,359
5. Result from ordinary activities			-20,212	-10,507
6. Taxes on income and profit			3,663	2,311
7. Other taxes			0	0
			3,663	2,311
8. Income from loss assumption			0	0
9. Annual net profit			-23,875	-12,818
10. Profit carried forward from previous year			33,405	44,205
11. Withdrawals from capital reserve			2,061	2,018
Balance sheet profit			11,591	33,405

Notes

General information

HDI Global Specialty SE has its registered office at Podbielskistrasse 396, 30659 Hannover, Germany and is registered in the Commercial Register of the Hannover Local Court under No. HRB 211924.

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

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

Valuation of assets

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

Shares in affiliated companies and participating interests 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 bonds 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 promissory notes 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. If the securities serve the business continuously, they are valued according to the moderated lowest value principle according to Section 341b Paragraph 1 of the German Commercial Code (*HGB*) and Section 253 Paragraph 3 of the German Commercial Code (*HGB*).

Deposits retained on assumed reinsurance business are recognised at nominal value according to Section 341c of the German Commercial Code (HGB).

Receivables 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 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 asset surplus.

Valuation of equity and liabilities

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

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

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

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

The **provision for outstanding claims** consists of the following partial provisions for the direct 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 benefit reserve is calculated for each individual annuity according to actuarial principles using appropriate assumptions.
- IBNR reserves for insured events claims incurred but not yet reported by the balance sheet date are determined on a lump-sum basis taking into account past experience.
- Provisions for loss adjustment costs are formed according to Section 341 g Paragraph 1 Sentence 2 of the German Commercial Code (HGB).

Receivables from recourse, salvage and division agreements are deducted from the loss and loss adjustment expense reserve pursuant to Section 26 Paragraph 2 of the Insurance Enterprises Accounting Regulation (RechVersV).

For the assumed reinsurance business, the loss and loss adjustment expense reserve is generally established on the basis of the provisions ceded by the ceding companies.

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

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

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

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

Pension obligations are recognised at the amount required to settle the obligation based on reasonable commercial judgement. They are discounted at the average interest rate of the past ten years published by Deutsche Bundesbank in accordance with the Provisions Discounting Regulation (Rück-AbzinsVO) at 2.31% with an assumed remaining term of 15 years. The pension provisions are calculated using the projected unit credit method. A salary trend of 2.50% and a pension trend of 1.64% were assumed. Fluctuation probabilities were determined separately depending on age and gender. The benefit adjustment due to surplus participation from reinsurance policies was taken into account in the amount of 0.0%. Valuation is based on the withdrawal probabilities of the "2018G Mortality Tables", which were reinforced in line with the risk experience observed within the Talanx Group. Employee-financed pension commitments, the amount of which is determined exclusively by the fair value of a reinsurance claim, are measured pursuant to Section 253 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 surplus participation. For securities-based employee-financed commitments, the settlement amount corresponds to the fair value of the security. In this context, claims under reinsurance policies were netted against the obligations as cover assets eligible for netting. The cover assets are recognised at fair value according to Section 253 Paragraph 1 Sentence 4 of the German Commercial Code (HGB). They correspond to the actuarial reserve of the insurance contract with the actuarial assumptions of the premium calculation plus the profit shares having been allocated already and, hence, the amortised cost.

Deposits retained on ceded business are valued at the settlement amount.

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

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

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 reporting date. To minimise currency risks, liabilities are congruently covered, to the extent possible, by corresponding asset items in the respective currencies. In currency terms, foreign currency liabilities are combined with matching foreign currency assets to form valuation units pursuant to Section 254 of the German Commercial Code (*HGB*) as a result of offsetting opposing changes in value (portfolio hedges), and the result from the currency translation of these foreign currency holdings is reported independently of the acquisition cost and imparity principles.

Notes to the assets

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

in EUR thousand	2019 Balance sheet val- ues as at 31 Decem- ber	2020					Balance sheet val- ues as at 31 Decem- ber
		Additions	Disposals	Write-ups	Write- downs	Currency effects	
A. Intangible assets							
1. Purchased conces- sions, industrial and similar rights and as- sets, and licences in such rights and assets	7,066	228	0	0	2,364	0	4,930
Total A.	7,066	228	0	0	2,364	0	4,930
B. I. Investments in affiliated companies and partici- pations							
1. Shares in affiliated companies	70,462	0	0	0	0	0	70,462
2. Participations	1,159	12	0	0	0	0	1,171
3. Total B. I.	71,621	12	0	0	0	0	71,633
B. II. Other investments							
1. Bearer bonds and other fixed-income se- curities	279,875	168,880	159,241	285	554	-16,617	272,628
2. Other loans							
a) Registered bonds	4,173	0	145	0	0	0	4,028
b) Promissory notes and loans	11,732	3,000	11,733	0	0	0	2,999
3. Deposits with financial institutions	12,500	71,644	75,629	0	0	219	8,734
4. Other investments	18,880	3,875	1,273	0	0	0	21,482
5. Total B. II.	327,160	247,399	248,021	285	554	-16,398	309,871
Total	405,847	247,639	248,021	285	2,918	-16,398	386,435

Write-downs on bearer bonds and other fixed-income securities were made in the financial year under review due to an expected not ongoing depreciation amounting to EUR 554 k. Depreciation of EUR 216 k was not recorded on other investments, as we assume that this will be recovered over their life cycle.

For Other investments, there are residual payment obligations in the amount of EUR 6,343 k.

Details of shareholdings

Shares in affiliated companies and participating interests are listed below.

List of shareholdings 2020

Name and registered office of the company	Amount of the share in capital in %	Currency	Equity (Section 266 Paragraph 3 of the German Commercial Code (HGB)) in EUR thousand	Result of the past financial year in EUR thousand
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Amounts in 1,000 currency units each

Shares in affiliated companies

Svedea AB, Stockholm	76.5	SEK	10,875	4,035
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SEK exchange rate as of 31 December 2020: 10.05600

Participations

VOV GmbH, Cologne	35.25	EUR thousand	1,879*	-138*
Amaniki GmbH, Frankfurt am Main	49.9	EUR thousand	25*	-481*

*Values as of 31 December 2019

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

Transaction values are used for the shares in affiliated companies and participating interests.

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

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

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

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

in EUR thousand

B. I. Long-term equity investments in affiliated companies and participations

1. Shares in affiliated companies
2. Participations

B. II. Other investments

1. Bearer bonds and other fixed-income securities
2. Other loans
 - a) Registered bonds
 - b) Promissory notes and loans
3. Deposits with financial institutions
4. Other investments

Total

Fair value 31 December 2020
70,462
1,171
277,872
4,031
2,999
8,734
22,277
387,546

Accrued and deferred items

in EUR thousand	2020	2019
Deferred interest and rents	1,966	2,166
Other accrued and deferred items	1,107	956
Total	3,073	3,122

Deferred taxes

Due to 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 asset surplus.

Deferred taxes are measured in Germany at a tax rate of approx. 32.63% and abroad at the respective local tax rate.

Notes to equity and liabilities

Equity

Subscribed Capital

The Company's share capital remained unchanged at EUR 121,600 k as of 31 December 2020. It is divided into 95,000,000 no-par value registered shares. The shares may only be transferred with the consent of the Company. The notional value per share is EUR 1.28.

As of the reporting date, HDI Global Specialty Holding GmbH held 50.2% of the Company's shares and Hannover Rück SE the remaining 49.8%.

Capital reserve

The capital reserve pursuant to Section 272 Paragraph 2 No. 4 of the German Commercial Code (HGB) amounts to EUR 78,221 k. In the financial year, withdrawals of EUR 2,061 k were made.

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 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	Total		Of which underwriting provisions for outstanding insured events		Of which equalisation re- serve and similar provisions	
Direct written insurance business						
Casualty insurance	29,127	18,265	18,347	14,065	-	-
Liability insurance	1,445,802	1,306,586	1,157,859	1,066,047	2,658	779
Motor third-party liability insurance	65,589	56,662	31,138	30,181	25,711	21,316
Other motor vehicle insurance	147,450	136,497	74,375	70,797	10,987	5,288
Fire and property insurance	770,531	561,431	532,226	389,875	-	8
Of which:						
Fire insurance	543,382	381,355	385,399	257,833	-	-
Householders' comprehensive in- surance	4,035	1,013	1,566	340	-	8
Homeowners' comprehensive rein- surance	2,726	39	2,016	4	-	-
Other property insurance	220,388	179,024	143,245	131,698	-	-
Transport and aviation insurance	287,347	267,698	177,043	186,453	3,154	1,587
Credit and collateral insurance	79,432	68,408	24,627	21,163	1,110	1,092
Legal protection insurance	46,097	41,878	45,034	40,932	-	-
Travel assistance insurance	524	249	247	176	-	-
Other insurances	70,142	38,605	45,868	26,059	-	-
Total	2,942,041	2,496,279	2,106,764	1,845,748	43,620	30,070
Reinsurance business assumed	295,893	185,790	224,491	133,114	10,412	4,299
Total insurance business	3,237,934	2,682,069	2,331,255	1,978,862	54,032	34,369

Other provisions

in EUR thousand	2020	2019
Provisions for pensions and other post-employment benefits	1,676	1,391
Provisions for taxes	1,444	1,019
Miscellaneous other provisions	18,888	14,967
Provisions for personnel expenses	11,345	9,065
Provisions for supplier invoices	5,971	4,475
Other provisions	1,572	1,427
Total	22,008	17,377

The difference amount pursuant to Section 253 Paragraph 6 Sentence 1 of the German Commercial Code (HGB) is EUR 326 k (previous year: EUR 291 k).

As of the reporting date, assets with a fair value of EUR 7 k were offset against corresponding liabili-

ties. The acquisition costs amortised according to the lowest value principle and, thus, the fair value within the meaning of Section 255 Paragraph 4 Sentence 3 of the German Commercial Code (HGB) correspond to the so-called business plan actuarial reserve of the insurance contract plus surplus. The settlement amount of the obligations is EUR 50 k as at the reporting date. In this context, interest income from the cover assets amounting to EUR 215.26 was netted with interest expenses amounting to EUR 1,112.08.

Other Liabilities

Other liabilities exclusively comprise liabilities with a remaining term of less than one year.

Notes to the consolidated statement of income

Gross premiums written by region of origin

in EUR thousand	2020	2020	2020	2019	2019	2019
	Germany	EU/EEA	Third countries	Germany	EU/EEA	Third countries
Casualty insurance	4,564	21,259	6,865	1,149	9,610	3,790
Liability insurance	31,405	269,709	297,516	11,693	201,504	268,143
Motor third-party liability insurance	10,586	1,400	25,564	11,538	-6	15,225
Other motor vehicle insurance	-	69,658	81,513	-	57,893	83,960
Fire and property insurance	2,172	187,451	448,937	1,853	136,891	249,939
Of which:						
Fire insurance	620	84,884	359,939	315	90,311	211,287
Householder's comprehensive insurance	166	4,775	-	60	1,398	-
Homeowners' comprehensive reinsurance	241	4,604	-	60	-	-
Other property insurance	1,145	93,188	88,998	1,418	45,182	38,652
Transport and aviation insurance	23,063	127,649	78,426	6,905	96,395	58,138
Credit and collateral insurance	-	1,070	31,782	-	4,054	27,301
Legal protection insurance	-	8,440	55	-	24,822	697
Travel assistance insurance	-	782	-	-	415	-
Other insurances	8,209	32,364	13,569	2,399	28,739	12,006
Total	79,999	719,782	984,227	35,537	560,317	719,199

Expenses for insurance operations for own account

in EUR thousand

	2020	2019
Gross expenses for insurance operations	533,113	381,480
Of which acquisition costs	508,190	363,604
Of which administrative expenses	24,923	17,876
Less: commissions and profit shares received for business ceded to reinsurance	552,789	392,319
Total	-19,676	-10,839

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

in EUR thousand/in pieces

	2020	2020	2020	2020	2020	2020	2020	2020
	Gross premiums written	Gross premiums earned	Net premiums earned	Gross expenses for claims	Gross expenses for insurance operations	Reinsurance balance	Net technical result	Number of insurance policies concluded for at least one year
Direct insurance business								
Casualty insurance	32,688	25,755	1,604	10,372	10,154	5,126	99	11,939
Liability insurance	598,630	537,982	47,339	392,839	156,627	-18,737	5,071	228,088
Motor third-party liability insurance	37,550	33,878	3,562	16,454	12,098	3,397	-2,516	198,275
Other motor vehicle insurance	151,171	149,610	15,481	80,046	41,990	21,058	669	331,339
Fire and property insurance	638,560	558,275	29,750	442,586	183,366	-77,466	5,846	699,544
Of which:								
Fire insurance	445,443	400,268	22,088	327,201	130,060	-66,740	5,978	430,661
Householders' comprehensive insurance	4,941	3,263	263	2,638	1,106	-470	-4	26,299
Homeowners' comprehensive reinsurance	4,845	4,176	373	2,633	987	428	128	2,752
Other property insurance	183,331	150,568	7,026	110,114	51,213	-10,684	-256	239,832
Transport and aviation insurance	229,138	195,886	11,647	102,011	56,963	35,243	30	77,774
Credit and collateral insurance	32,852	23,938	747	9,071	6,830	7,752	-246	116,539
Legal protection insurance	8,495	8,391	1,107	12,973	5,463	-8,817	-1,229	6,960
Travel assistance insurance	782	590	48	211	184	153	41	59
Other insurances	54,142	41,296	2,530	55,564	15,490	-26,655	-3,104	10,985
Total	1,784,008	1,575,601	113,815	1,122,127	489,165	-58,946	4,661	1,681,502
Assumed reinsurance business	228,945	212,353	17,819	178,419	43,948	-20,476	4,345	-
Total insurance business	2,012,953	1,787,954	131,634	1,300,546	533,113	-79,422	9,006	1,681,502

in EUR thousand/in pieces	2019	2019	2019	2019	2019	2019	2019	2019
	Gross premiums written	Gross premiums earned	Net premiums earned	Gross expenses for claims	Gross expenses for insurance operations	Reinsurance balance	Net technical result	Number of insurance policies concluded for at least one year
Direct insurance business								
Casualty insurance	14,549	14,717	1,596	6,052	3,330	4,278	1,057	15,852
Liability insurance	481,340	389,799	29,257	307,344	123,425	-51,335	9,430	206,148
Motor third-party liability insurance	26,757	26,525	3,668	10,169	12,067	5,639	-5,546	302,210
Other motor vehicle insurance	141,853	127,190	12,647	72,826	34,893	11,143	3,743	295,349
Fire and property insurance	388,683	333,511	21,845	297,984	107,567	-78,269	4,521	504,489
Of which:								
Fire insurance	301,913	251,448	16,813	211,400	85,347	-51,964	5,019	370,175
Householders' comprehensive insurance	1,458	935	64	729	302	-140	36	8,610
Homeowners' comprehensive reinsurance	60	25	-2	4	23	-1	-1	6
Other property insurance	85,252	81,103	4,970	85,851	21,895	-26,164	-533	125,698
Transport and aviation insurance	161,438	135,194	9,496	140,380	34,483	-46,778	7,130	73,602
Credit and collateral insurance	31,355	21,478	1,151	7,012	8,709	5,028	508	116,152
Legal protection insurance	25,519	25,659	2,482	34,366	11,583	-17,758	-2,531	8,134
Travel assistance insurance	415	421	45	200	104	80	37	26
Other insurances	43,144	34,820	2,831	19,417	22,946	3,438	-10,980	8,669
Total	1,315,053	1,109,314	85,018	895,750	359,107	-164,534	7,369	1,530,631
Assumed reinsurance business	111,420	110,111	12,298	104,516	22,373	-19,702	312	-
Total insurance business	1,426,473	1,219,425	97,316	1,000,266	381,480	-184,236	7,681	1,530,631

Investment Income

in EUR thousand	2020	2019
1. Income from equity investments	-	151
2. Income from other investments	6,978	5,188
3. Income from write ups	285	649
4. Gains on disposal of investments	960	1,008
Total	8,223	6,996

Investment expenses

in EUR thousand	2020	2019
1. Investment management expenses, interest expenses and other investment expenses	656	583
2. Write downs of investments	554	1,098
3. Losses on disposal of investments	496	144
Total	1,706	1,825

Unscheduled depreciation of EUR 554 k (previous year: EUR 1,098 k) was recorded on bearer bonds 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	2020	2019
1. Commissions of any kind of the insurance agents within the meaning of Section 92 of the German Commercial Code (HGB) for direct insurance business	436,242	325,420
2. Wages and salaries	42,081	27,440
3. Social security contributions and expenses for employee benefits	5,777	3,947
4. Expenses for retirement benefits	3,622	2,647
5. Total expenses	487,722	359,454

Other Disclosures

Other income and other expenses include exchange rate gains of EUR 16,748 k (previous year: EUR 13,706 k) and exchange rate losses of EUR 26,126 k (previous year: EUR 9,327 k).

Taxes exclusively relate to the result from ordinary business 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). The volume amounts to EUR 176,458 k (previous year: EUR 165,907 k). The valuation units are accounted for using the direct booking method, whereby effective changes in the value of the underlying and hedging transactions are being reported in the balance sheet and income statement.

We expect annual rental payments from long-term rental agreements for our locations totalling approx. EUR 2,359 k (previous year: EUR 2,744 k)

As at the reporting date, the Company has obligations of EUR 31,402 k from future legal transactions.

The average number of employees in the financial year was 397 (previous year: 247), of which 364 (previous year: 229) were full-time and 33 (previous year: 18) part-time employees.

The total remuneration of the members of the executive body amounted to EUR 1,836 k (previous year: EUR 1,860 k).

Talanx AG, Hannover includes the figures from our annual financial statements in its consolidated financial statements (smallest group of companies). Moreover, our annual financial statements are also included in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover (the largest group of companies). These financial statements are published in the electronic German Federal Gazette. The inclusion of HGS in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G. and Talanx AG exempts the Company from preparing its own consolidated financial statements pursuant to Section 291 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 Talanx AG. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements, the management report and the IFRS reporting package. The quarterly reporting packages prepared in accordance with IFRS were reviewed by an auditor. In addition, audits were performed for the solvency overview as at 31 December 2020, the migration in connection with the introduction of a new IT application, and agreed upon procedures were implemented.

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

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

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

The management proposes to carry the balance sheet profit forward to new account.

Governing bodies until 1 March 2020

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

Member of the Board of Management of HDI Global Specialty SE

Supervisory Board

Ulrich Wallin

Chairman

Former Chairman of the Board of Management of Hannover Rück SE

Jens Wohlthat

Member of the Board of Management HDI Global SE

Roland Vogel

Member of the Board of Management of Hannover Rück SE

Governing bodies from 2 March 2020

Executive Directors

Ralph Beutter

Managing Director of HDI Global Specialty SE

Andreas Bierschenk

Managing Director of HDI Global Specialty SE

Thomas Stöckl

Managing Director of HDI Global Specialty SE

Richard Taylor

Managing Director of HDI Global Specialty SE

Board of Directors

Ulrich Wallin

Chairman

Former Chairman of the Board of Management of Hannover Rück SE

Jens Wohlthat

Deputy Chairman

Member of the Board of Management HDI Global SE

Roland Vogel (until 31 December 2020)

Member of the Board of Management of Hannover Rück SE (until 30 September 2020)

Clemens Jungsthöfel (from 1 January 2021)

Member of the Board of Management of Hannover Rück SE (since 1 September 2020)

Ralph Beutter

Managing Director of HDI Global Specialty SE

Hannover, 24 March 2021

The Executive Directors

Ralph Beutter

Andreas Bierschenk

Thomas Stöckl

Richard Taylor