Annual Financial Statements

2019

HDI Global Specialty SE

Contents

Management Report

Basis of the Company

As early as in 2018, the preparations of Hannover Rück SE and HDI Global SE started to launch a joint venture in the worldwide specialty business under the umbrella of Talanx AG. To this end, HDI Global SE acquired 50.2% of the shares of HDI Global Specialty SE („HGS“, „the Company“) from Hannover Rück SE with the approval of BaFin in January 2019. As a specialty insurer, HGS offers tailored solutions for the agency and specialty insurance business.

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 and casualty insurance as well as reinsurance in Germany and by way of freedom to provide services within the European Union. Moreover, HGS writes insurance business through its branches in Australia, Great Britain, Italy, Canada and Sweden. As a company registered with the National Association of Insurers Commissioners (NAIC), the Company operates as an excess and surplus lines provider in the US market.

As of 1 January 2020, the Company established additional branches in the Netherlands and Belgium.

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.

Also after the United Kingdom's withdrawal from the Europear uncertainty about future relations after the end of the agreed tr our branch in London, Great Britain, cannot yet be conclusively be able to continue our business, which we conduct unde interruption even after the end of the transition period.

General economic and industry-related conditions

Macroeconomic development

The global economic growth in 2019 was significantly impaired by the high level of trade uncertainty caused by the protectionist US trade policy, ongoing concerns about a disorderly withdrawal of Great Britain from the EU and geopolitical conflicts.

The German economy only narrowly escaped recession in the third quarter of 2019. For the year as a whole, the gross domestic product grew by 0.6%, compared to 1.5% in the previous year. Apart from negative export dynamics, mainly sectoral special effects were responsible for the poor result. The economy in the euro zone was particularly affected by the slowdown in export growth. In addition, the continuing high level of uncertainty around the Brexit negotiations as well as domestic political turbulence in Italy had a negative impact on the business and consumer climate. However, a resilient labour market and the noticeable easing of the fiscal and monetary policy supported the growth; it fell from 1.9% in 2018 to an anticipated 1.2% in the year under review.

Apart from the general weakness in global growth, in the United States the noticeable slowdown in growth momentum was caused, among other things, by the weakening fiscal stimulus, the burden of the renewed escalation of the trade conflict with China and the tightening of monetary policy in 2018 by the US Federal Reserve. Growth was mainly supported by the surprisingly resilient consumption

and a change in the monetary policy. After 2.9% in 2018, the US growth fell to 2.3% in the year under review.

A difficult external economic environment, lower oil and industrial metal prices as well as a lower investor interest put pressure on the economic development in developing countries. The 2019 economic growth in China was burdened, first of all, by the renewed escalation of the trade conflict with the USA and at 6.1% fell to its lowest level over the past 30 years.

The weak global growth and the generally lower commodity prices led to falling inflation rates. Even economies with high labour market utilisation did not develop any significant price pressure. In the USA and the euro zone, the inflation rates fell to 1.5% and 1.2%, respectively, after 2.5% and 1.8% in the previous year. Accordingly, these factors drove the synchronised easing of the monetary policy: The US Federal Reserve lowered its base rate by 75 basis points and the European Central Bank implemented an extensive easing package in the second half-year. Also other big central banks eased their monetary policy.

Capital markets

The weak growth and inflation trends and the resulting easing of the monetary policy led to a clear decline in interest rates and, thus, to the continuation of the trend towards falling returns that had started in autumn 2018. Ten-year US Treasury and Bund yields reached their lows of below 1.5% and -0.7%, respectively, in summer. This was followed by a moderate recovery in yield levels as the year progressed – with about 1.9% in the USA and -0.2% in Germany at the end of the year. In a fundamental environment that remained stable for corporate bonds, risk premiums fell continuously in the course of the year, thus ensuring that credit products outperformed the AAA government bond and covered bond segment. The euro continued its previous year's trend against the US dollar and fell from about 1.14 USD/EUR at the beginning of the year to just under 1.11 USD/EUR at the end of the year.

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

International insurance markets

The international property/casualty insurance exhibited a slight premium growth for 2019 as a whole, which was markedly higher in the emerging markets than in the developed insurance markets.

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

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

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

In Latin America, premium growth was flat as a result of the lower than expected overall economic growth. Growth was supported in particular by rising prices in property insurance and industrial liability insurance (financial and professional liability).

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

The market environment in international non-life reinsurance remained challenging, also due to the price pressure resulting from existing overcapacity for the coverage of insurance risks. In sub-markets, prices increased in the wake of treaty renewals, in particular in loss-affected programmes and regions, such as North America. Following a very moderate major-loss experience in the first half of 2019, the claims burden from natural catastrophes in the second half of the year markedly increased, especially in Japan and the USA.

German insurance industry

In property/casualty insurance, the German insurance industry was able to achieve a premium growth in 2019 at previous year’s level. Strong growth, especially in property insurance, was counteracted by the economic slowdown and fierce price competition. The natural hazards balance of German property insurers in 2019 was marked by a number of extreme weather events, but overall remained at the previous year's level and within the long-term average. Claims payments for storm and hail damage to motor vehicles almost doubled compared to the previous year, to a major extent solely as a result of a series of storms at Whitsun. Further damaging events were the “Dragi” and “Eberhard” storms in March.

Legal and regulatory framework conditions

Insurance companies (primary insurance and reinsurance companies), banks and capital management companies are subject to the 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 2019.

For the companies belonging to the Talanx Group, compliance with the applicable law is a prerequisite for sustained successful business activity. The Talanx Group gives a great deal of 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 2019 financial year, the markets hardened such that we were able to profit from rising rates in several segments and seize opportunities for an altogether profitable insurance business. Overall, we applied a risk-adequate and selective underwriting policy. Fortunately, we were able to clearly increase the premium income compared with the previous year.

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

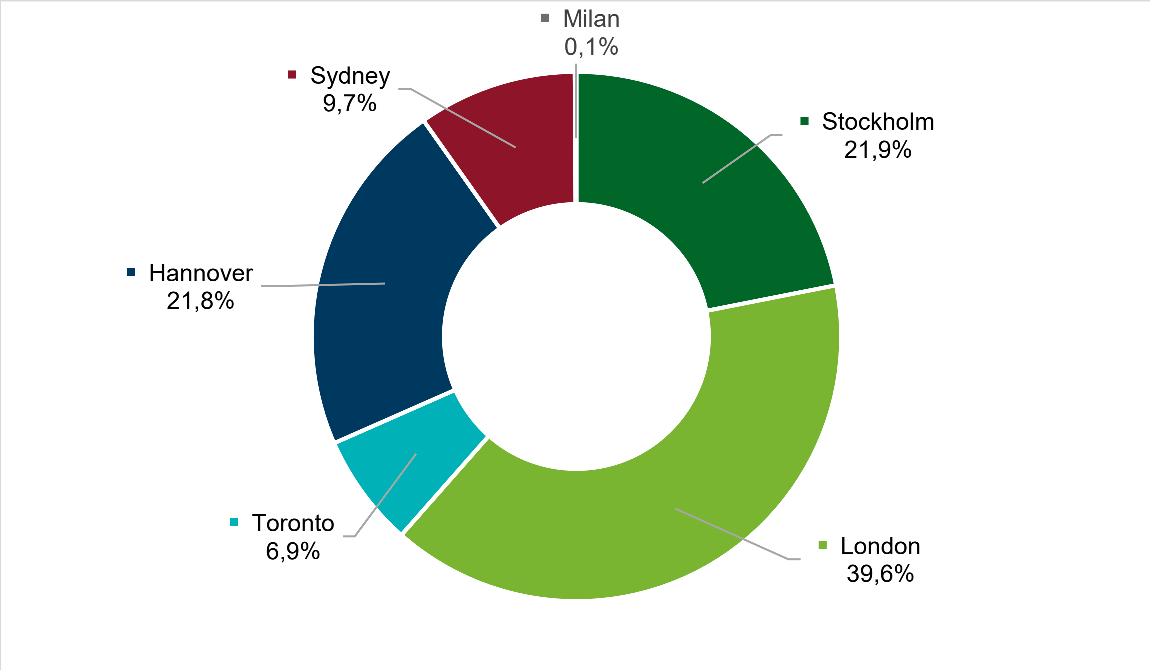
Currency (1 EUR =)	**31 December 2019**	**31 December 2018**
Australian dollar	1.59999	1.62081
British pound	0.85201	0.90279
Canadian dollar	1.46202	1.55910
Norwegian krone	9.85300	9.99120
Swedish krone	10.43720	10.27690
US dollar	1.11895	1.14510

The gross premium volume in the financial year amounts to EUR 1,426.5 million and, at 50.7%, is clearly above the level of the previous year (EUR 946.8 million). The direct insurance business with EUR 1,315.1 million (previous year: EUR 850.5 million) continued to account for the major portion. To complement our business, we have also assumed a small volume of reinsurance business. For the assumed reinsurance business we recorded gross premiums amounting to EUR 111.4 million (previous year: EUR 96.2 million).

The continued disproportionate increase in business conducted from Germany caused the share of the international branches to fall to 78.2% (previous year: 79.1%). They generated an absolute premium volume of EUR 1,115.6 million (previous: year EUR 748.4 million). Thus, they continue to represent a decisive share in the gross premium income and, hence, reflect the international orientation of the Company.

In the year under review, we wrote premiums of EUR 565.0 (previous year: EUR 373.3 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 311.8 million (previous year: EUR 230.9 million) in the 2019 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 310.9 million (previous year: EUR 198.3 million). This also reflects the transfer of business from HDI Global SE as agreed in the context of the joint venture. The pleasing development of the previous year continued for our Sydney location in the 2019 financial year, as reflected in particular in a significant increase in gross premiums written from EUR 81.4 million to EUR 138.3 million. Our Canadian branch based in Toronto also posted dynamic growth in gross premiums written to EUR 98.4 million (previous year: EUR 62.9 million). Our branch in Italy wrote new business with a premium volume of EUR 2.1 million in the year under review.

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 2019. 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 1,219.4 million (previous year: EUR 895.6 million) and the premiums earned for own account amount to EUR 97.3 million (previous year: EUR 78.9 million).

A higher burden from major loss events led to a marked increase of the balance sheet loss ratio (gross) to 82.0% compared to the previous year's 65.6%. The gross expenses for insurance claims amount to EUR 1,000.2 million (previous year: EUR 587.6 million).

The gross expenses for insurance operations reflect both the persistently fierce competition and the sharp rise in business volume and amount to EUR 381.4 million (previous year: EUR 275.3 million) or 31.3% (previous year: 30.7%).

The combined ratio (gross) is 113.3% (previous year: 96.4%).

In accordance with the statutory regulations, we allocated an amount of EUR 11.9 million (previous year: EUR 12.3 million) to the equalisation reserve and similar provisions. Hence, the balance sheet value of the equalisation reserve and similar provisions amounts to EUR 34.4 million (previous year: EUR 22.5 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 an underwriting result for own account of EUR 7.9 million (previous year: EUR -4.5 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 underwriting result for own account.

Direct written insurance business

Liability

in EUR million	2019	2018
Gross premiums written	481.3	279.6
Loss ratio (%)	78.8	53.5
Underwriting result (for own account)	9.4	0.8

The premium volume in **liability insurance** amounts to EUR 481.3 million (previous year: EUR 279.6 million). With a premium volume of about 36.6% 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 78.8% and, hence, about 25 percentage points above the loss ratio of 53.5% in the previous year. After changes in the equalisation reserve, the underwriting result for own account amounts to EUR 9.5 million (previous year: EUR 0.8 million).

Casualty

in EUR million	2019	2018
Gross premiums written	14.5	12.2
Loss ratio (%)	41.1	19.3
Underwriting result (for own account)	1.1	0.8

In **casualty insurance** we were able to increase the gross premiums moderately by EUR 2.3 million to EUR 14.5 million. The loss ratio deteriorated from 19.3% in the previous year to 41.1% in the financial year. In total, the underwriting result for own account amounts to EUR 1.1 million (previous year: EUR 0.8 million).

Motor vehicle

In EUR million	2019	2018
Gross premiums written	168.6	129.8
Loss ratio (%)	54.0	64.1
Underwriting result (for own account)	-1.8	-7.0

In **motor vehicle insurance**, the gross premiums amount to EUR 168.6 million (previous year: EUR 129.8 million). The loss ratio has improved in the year under review to 54.0% (previous year: 64.1%). The allocation to the equalisation reserve for the financial year amounts to EUR 8.5 million (previous year: EUR 11.4 million). Overall, there is an underwriting loss for own account of EUR 1.8 million (previous year: loss of EUR 7.0 million).

Fire and property insurance

in EUR million	2019	2018
Gross premiums written	388.7	257.0
Loss ratio (%)	89.3	78.2
Underwriting result (for own account)	4.5	1.5

With a gross premium income of EUR 388.7 million (previous year: EUR 257.0 million), the **fire and property insurance** made a major contribution to our total premium income with almost one third of our premium income in direct written insurance business. The loss ratio of 89.3% in the year under review is higher than the previous year's ratio of 78.2%. After changes in the equalisation reserve in the financial year, the underwriting result for own account amounts to EUR 4.5 million (previous year: EUR 1.5 million).

Marine and aviation insurance

in EUR million	2019	2018
Gross premiums written	161.4	88.7
Loss ratio (%)	103.8	46.3
Underwriting result (for own account)	7.1	1.2

The gross premium volume in **marine and aviation insurance** increased in the year under review from EUR 88.7 million to EUR 161.4 million. According to our assessment, this line of business is characterised by a highly competitive environment as well as major loss events in the financial year. As a consequence, the loss ratio deteriorated and is now 103.8% (previous year: 46.3%). The underwriting result for own account, under consideration of the equalisation reserve, amounts to EUR 7.1 million (previous year: EUR 1.2 million).

Credit and collateral insurance

in EUR million	2019	2018
Gross premiums written	31.4	29.6
Loss ratio (%)	32.6	25.4
Underwriting result (for own account)	0.5	-0.8

Credit and collateral insurance posted gross premiums written of EUR 31.4 million (previous year: EUR 29.6 million), representing an increase of EUR 1.8 million compared to the previous year. The loss ratio increased from 25.4% to 32.6% and thus remains at a low level. In total, the underwriting result for own account after changes in the equalisation reserve amounts to EUR 0.5 million (previous year: loss of EUR 0.8 million).

Legal expenses insurance

in EUR million	2019	2018

Gross premiums written	25.5	31.6
Loss ratio (%)	133.9	52.7
Underwriting result (for own account)	-2.5	0.2

In the year under review, business in **legal expenses insurance** decreased by EUR 6.1 million to EUR 25.5 million (previous year: EUR 31.6 million). Markedly higher expenses for insurance claims led to a substantial rise to 133.9% in the loss ratio (previous year: 52.7%). In total and after changes in the equalisation reserve, we achieve an underwriting result for own account amounting to EUR -2.5 million (previous year: EUR 0.2 million).

Other insurances

in EUR million	2019	2018
Gross premiums written	43.6	22.0
Loss ratio (%)	55.4	77.9
Underwriting result (for own account)	-10.8	0.4

In **other insurance lines** we booked gross premiums of EUR 43.6 million (previous year: EUR 22.0 million). Other insurances include gross premiums written of EUR 0.4 million (previous year: EUR 0.3 million) from the assistance insurance. We concluded the financial year with a loss ratio of 77.9% (previous year: 68.0%) for other insurances. In total, we have achieved an underwriting result for own account of EUR -10.8 million (previous year: EUR 0.4 million).

Reinsurance business assumed

in EUR million	2019	2018
Gross premiums written	111.4	96.2
Loss ratio (%)	94.9	97.0
Underwriting result (for own account)	0.3	-1.7

We operate the assumed reinsurance business mainly in the marine and aviation, liability, fire and property, motor third-party liability insurance as well as casualty lines, and wrote gross premiums of EUR 44.6 million, EUR 27.9 million, EUR 24.7 million, EUR 7.0 million and EUR 5.6 million, respectively, in these lines. In total, we achieved gross premiums of EUR 111.4 million (previous year: EUR 96.2 million), and hence expanded our reinsurance business. Compared to the previous year, a lower loss ratio in the year under review of 94.9% (previous year: 97.0%) increases our underwriting result for own account to EUR 0.3 million (previous year: loss of EUR 1.7 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 2019, 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.

Premiums booked for business ceded to reinsurers amount to EUR 1297.3 million (previous year: EUR 856.0 million). Therefore, the level of retained premiums amounting to 9.1% is slightly lower compared to the previous year (9.6%).

From the reinsurers' perspective, the result from business ceded to reinsurers amounted to EUR -184.2 million in the financial year (previous year: EUR 24.3 million).

Capital investment policy

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

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

The major part of our investments is invested in fixed-income securities to generate regular and predictable income. The portfolio is well diversified, both in terms of investment segments and issuers. In addition, to a minor extent investments have been made in real estate funds. A large part of our investments consists of international government bonds, which are highly secure and highly liquid. Thus, we can always guarantee our solvency. Within the framework of a balanced mix and diversification, part of the capital investments is invested in corporate bonds with, to a minor extent, a BBB rating in order to generate an attractive return even in the current interest rate environment.

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

Development of investments

The book value of shares in affiliated companies and equity investments increased to a total of EUR 71,621k (previous year: EUR 135k) in the financial year. Of this amount, EUR 70,462k are shares in affiliated companies and EUR 1,159k are participations.

HGS's portfolio of Other investments at book values decreased in line with our expectations in the year under review by 29.5% from EUR 252,704k to EUR 327,160k. Major additions in this connection relate to bearer bonds and other fixed-income securities as well as other investments.

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 85.5% (previous year: 84.6%). Accordingly, the share of Other loans continued to decline from 8.5% to 4.9%. Deposits with credit institutions amounted to 3.8% (previous year: 2.0%) as of the balance sheet date. The Other investments consist exclusively of shares in real estate funds subscribed for the first time in the 2017 financial year, and contribute 5.8% (previous year: 4.9%) to our Other investments.

The composition of Other investments by rating classes changed only slightly compared to the previous year. The still overwhelming share is invested in AAA-rated investments, which account for about 51% (previous year: about 48%) of the Other investments. The share of AA-rated investments decreased to about 27% (previous year: about 35%). Individual securities with an A rating account for about 8% (previous year: about 7%) of our portfolio. The share of Other investments with a BBB rating amount to about 8% (previous year: 5%). Overall, investments with a BBB rating and without a rating increased. Their share now amounts to about 14% after about 5% in the previous year. Of this amount, about 6% (previous year: about 5%) is accounted for by real estate funds not having a rating. Consequently, the level of security of our portfolio in its entirety remains almost similar compared 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 3,723k at the balance sheet date (previous year: EUR 1,367k). Of this amount, EUR 2,949k (previous year: EUR 1,201k) are bearer bonds and other fixed-income securities, and EUR 123k (previous year: EUR 257k on balance) are registered bonds and promissory note loans. There are hidden liabilities of EUR 55k (previous year:

EUR 91k) in Other investments.

Investment result

The current investment income in the year under review amounts to EUR 5,339k (previous year: EUR 4,479k), of which EUR 4,479k (previous year: EUR 4,479k) relate to current interest income from Other investments.

The result from the disposal of investments amounts to EUR 864k (previous year: EUR 8k) and consists of gains from the disposal of investments amounting to EUR 1,008k (previous year: EUR 340k) and losses from the disposal of investments amounting to EUR 144k (previous year: EUR 771k).

Depreciation on investments amounts to EUR 1,098k (previous year: EUR 1,204k) and relates to bearer bonds and other fixed-income securities, which were valued according to the strict lowest value principle. Appreciation on investments for which write-downs were made in the previous year amount to EUR 649k (previous year: EUR 337k).

The management of investments caused expenses of EUR 583k in the financial year (previous year: EUR 586k).

The total investment result amounts to EUR 5,171k (previous year: EUR 2,595k).

Other result

The other result consists of other income of EUR 21,325k (previous year: EUR 11,223k) and other expenses of EUR 44,684k (previous year: EUR 27,247k), resulting in a loss on balance of EUR 23,539k (previous year: loss of EUR 16,024k) as other result.

Total result

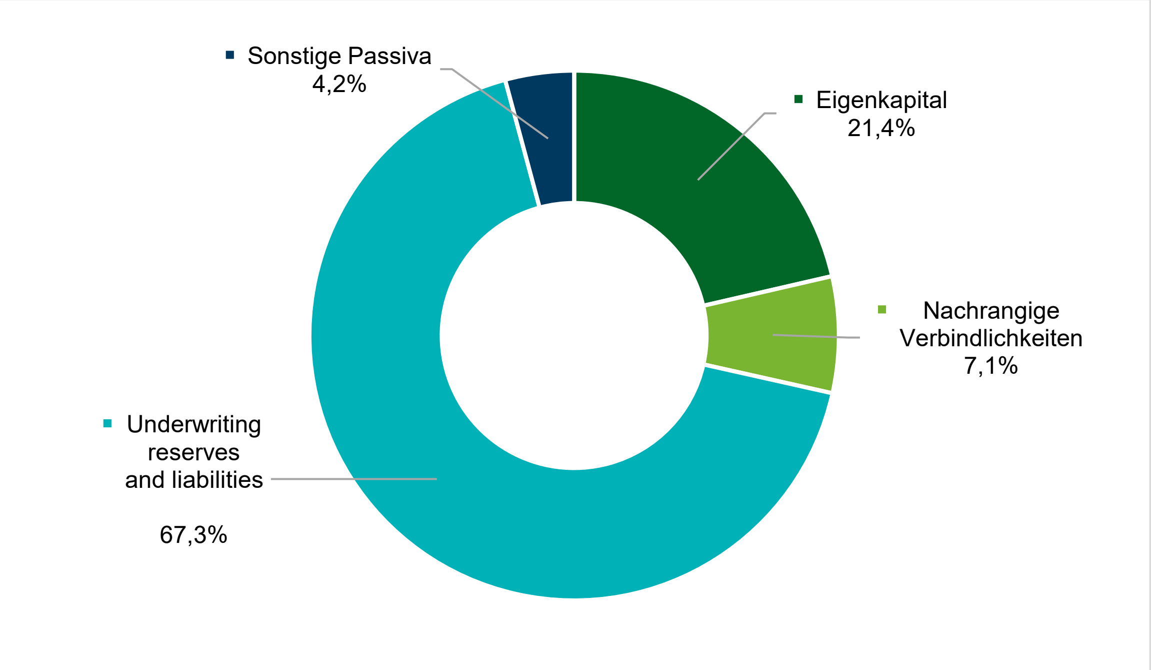
The financial year ended with a loss of EUR 12,818k (previous year: loss of EUR 20,500k). Moreover, we withdrew an amount of EUR 2,018k from the capital reserve according to Section 272 Paragraph 2 No. 4 of the German Commercial Code *(HGB)* and, hence, the balance sheet profit amounts to EUR 33,405k (previous year: EUR 44,205k).

Capital structure

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

Overall, our capital structure is highly consistent compared with the previous year. With 21.4% (previous year: 20.0%) 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 7.1% (previous year: 9.3%) 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 underwriting reserves and liabilities amounting to 67.3% (previous year: 68.2%) remains almost at previous year’s level.

Capital structure on the balance sheet date



Branches

In the 2019 financial year, HDI Global Specialty had the following branches:

- London, United Kingdom
- Stockholm, Sweden
- Milan, Italy
- 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 segment in the branch office in Stockholm, Sweden, was transferred to Svedea Skadeservice AB in Stockholm.

IT

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

Employees

As of 31 December 2019, the Company had 264 employees (previous year: 135).

Our employees

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

The success of our Company depends directly on the successful work of our employees. We promote the professional, personal and health development of our employees. Like other companies, however, we are also facing various current challenges. For instance, we are observing increasing competition for the best employees. Employees do not only base their decision for a specific employer on hard factors, such as monetary aspects, but also on soft factors, such as the company's reputation, offered development opportunities and additional benefits.

We pay particular attention to the qualifications, experience and motivation of our employees. Based on our strategic personnel planning, we adjust the number and qualifications of our employees to the current and future requirements of our market presence. HGS offers its employees an attractive workplace that promotes motivation, commitment and teamwork and may also include a global scope of duties through membership in a globally acting insurance group. Our attractiveness as an employer is further underpinned by scheduled career development programmes, the commitment to explicitly express our appreciation for our employees as well as a concept that allows them to share in our sustainable business success. Our employees are proud to work for a successful company in the specialty insurance business. We ensure that success can be consciously experienced.

The basis of our common corporate culture is the greatest possible delegation of tasks, responsibility and authority. In this way, we create the conditions for our employees to be able to act quickly and flexibly.

Of particular importance are our managers. They lead their employees according to our leadership principles and, in particular, encourage personal responsibility of their employees. We support our managers in developing their leadership qualities. Where possible, we fill vacant management positions with the same qualifications from within our own ranks and therefore take management potential into account as early as at the hiring stage.

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

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 aspects 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 www.talanx.com/nachhaltigkeit.

Our ultimate goal

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 does not only comprise the Aviation, Space, Marine, Bloodstock and Equine, Legal Expenses, Manager's Liability, Event, Securities, Kidnap & Ransom lines of business, but also Mining insurance. However, a niche market can also be characterised by a particular clientele, such as churches in Great Britain or professional groups like lawyers, which may then purchase standard products. To be able to take advantage of business opportunities whenever they arise, the Company aims at maintaining an adequate capital base 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 control and monitoring is therefore not only performed at the level of HDI Global Specialty SE, but additionally also at the level of HDI Global SE and the Talanx Group.

Strategy implementation

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

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

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

Our risk strategy identifies our core risks, risk-bearing capacity and risk tolerance. It is the central element in our handling of risks. We review the risk strategy, the risk register, the guidelines for managing operational 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, the Company implemented the growth initiative launched in the previous year. Using the extended mandate, new business relations could be established, in particular, in the agency but also the specialty primary insurance business, including in the lines of pecuniary damage liability, corporate bodies' liability, legal protection, sports and entertainment, aviation, offshore energy and animal insurance. This growth was supported by the addition of so-called underwriting teams for bloodstock and equine in the London branch and for aviation in the Australian branch. In addition, a stake was acquired in the Swedish agency Svedea, which contributes to strengthening the Stockholm location. The branches in Denmark, the Netherlands and Belgium are in the start-up phase and, with the renewal rights each transferred from HDI Global SE as the starting base, represent a starting point for further business expansion in the regional markets. The hardening tendencies in conditions and prices in the various insurance markets also had a favourable effect. The Company paid particular attention to cyber risks which, on the one hand, mean a higher exposition of the covers sold to date, but were also identified as a further growth driver, and, on the other hand, threaten information processing systems through external attacks.

The launch of the HDI Global Specialty SE brand accompanied by the new marketing function reinforced the growth trend of the company.

Across all locations, resources were adjusted to the higher premium volume and the associated requirements. Nevertheless, the recruitment and integration of personnel as well as the further development of processes pose a challenge. To successfully cope with the anticipated higher number of units as well as the envisaged expansion of vertical integration, an evaluation project was set up for the introduction of 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 department store, were further advanced.

Moreover, the past year was characterised by work aimed at optimising the reporting channels into the HDI Group as well as the interaction with changed service providers, in particular in the areas of Internal Audit and Human Resources.

As a result of the Company's growth course, the operational risk is subject to strong dynamics consistently countered by the Company by strengthening its line organisation.

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

The decision of Great Britain to withdraw from the EU created the need to reorient the future set-up, in particular of the UK branch, as there may be changes in the freedom of establishment and services depending on the political decisions to be taken. The current legal framework and the associated uncertainty as to which measures are to be taken to maintain uninterrupted business operations represent the main challenge. HGS was included in the so-called „temporary permissions regime" by the Prudential Regulatory Authority (PRA). In case of leaving the regulations of the EU without any subsequent agreement, this status allows HGS to conduct business until a permanent solution is agreed on the legislative side.

The persistently low level of interest rates on the capital markets, in particular with regard to the achievable return on our investments and the volatility of exchange rates, are further major external factors influencing risk management.

Risk capital

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

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

Organisation and processes of risk management

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

Key elements of our risk management system

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

The 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 regulatory requirements for risk management as well as international standards and developments of appropriate corporate governance.

Risk-bearing capacity concept

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

Risk identification

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

Risk analysis and assessment

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

Risk control

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

Risk monitoring

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

Risk communication and risk culture

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

Risk reporting

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

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

Process-integrated and independent monitoring and quality assurance

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

Internal control system

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

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

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

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

Risk landscape

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

Underwriting risks

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

A high diversification effect is achieved by writing 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 catastrophes, 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 settlement triangles we use. They show how the provision has changed over time as a result of the payments made and the recalculation of the provision to be formed as at the respective balance sheet date. Their adequacy is monitored by our actuarial department. On an annual basis, quality assurance of our own actuarial calculations regarding the adequacy of the reserve amount is additionally performed by external actuarial and auditing companies.

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

Market risks

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

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

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

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

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

Bad debt risk

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

Since most of the business written by us is reinsured, the bad debt risk in reinsurance is of major importance to us. In line with its role within the Group, HGS cedes primary insurance risks almost exclusively to companies of the Talanx Group. In order to minimise the bad debt risk resulting from business ceded to third parties, our non-Group reinsurers are carefully selected and monitored from the point of view of creditworthiness. Depending on the type and expected duration of the settlement of the reinsured business, also internal and external expert assessments are used for the selection of reinsurers in addition to the minimum ratings of the rating agencies Standard & Poor's and A. M. Best. The risk of receivables default 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, for instance, by assessing the maturity level of the relevant risk management function or of risk monitoring and reporting. For determining the capital use 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 testing software, parts of the insurance portfolio of HGS as well as payment transactions are filtered by persons and companies that are subject to sanctions due to a criminal or terrorist background. If such persons or companies are discovered, appropriate measures are taken.

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

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

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

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

Information technology risks and information security risks consist, among other things, of the risk of inadequate integrity, confidentiality or availability of systems and information. For example, potential damage that could result from non-compliant processing of personal data or from the non-availability of our core systems 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 confidentiality agreements to be concluded with service providers.

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

Other risks

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

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

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

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

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

We manage the overall liquidity of our portfolio of corresponding government 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. Exercising the renewal rights in the specialty business having been previously underwritten by HDI Global SE, generates significant momentum for a substantial organic expansion of the portfolio. The ownership structure as a joint venture opens up opportunities for the cooperation with Hannover Rück SE and HDI Global SE. 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

In particular, digitalisation opens up new opportunities for us, since the business model of HDI Global Specialty SE is ideally suited for the needs of InsurTechs and start-ups. We also have specific cyber insurance products in our product range. This enables us to offer our customers solutions for this changed risk situation.

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 artificial intelligence and microplastics were analysed in 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 the risk to be insured is new or if the liability is substantially higher than the previous scope of cover. If this is the case, all significant internal and external influencing factors will be examined in advance and evaluated by risk management. Furthermore, it is ensured that the Board of Management approves the application or sale of the new insurance product.

Overall assessment 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 asset situation, financial position and profit situation. 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 major risks of HGS, specific monitoring indicators, corresponding reporting limits and potential escalation steps are bindingly defined. As a result, the system provides us with an overview of potential undesirable developments of the defined risk tolerances and enables us to react promptly.

Outlook

General economic conditions

We expect a decline in the economic output in the first half of 2020, but anticipate a recovery in the further course of the year, depending on the course of the coronavirus pandemic.

The easing of the monetary policy as well as government aid programmes could dampen the effects of the coronavirus crisis. However, we believe that the economic risks remain high and could lead to a volatile year.

In addition, political risks such as the as yet unresolved Brexit and the development in Italy also weigh on the euro zone and represent further factors of uncertainty.

Overall, the economic environment, in particular against the background of the coronavirus with its consequences for the real and financial economy, is characterised by considerable uncertainty.

Insurance sector

In the international property/casualty insurance, we expect the premium income in 2020 to grow at the level of the year under review. For the developed insurance markets we anticipate a slight slowdown in the pace of growth, whereas we expect a slight upturn for the emerging markets. Profitability is expected to remain stable in 2020, thus requiring a high degree of underwriting discipline as interest rates remain low.

In 2020, we expect a premium income for the developed European insurance markets at the level of the year under review, whereas the trend in the USA is expected to be slightly downward. We expect the premium growth to rise in Central and Eastern Europe and even more strongly in Latin America. The strongest growth in the year to come is likely to continue to be in the emerging markets of Asia, first of all in China.

Outlook for the business as a whole

Despite challenging conditions on the capital market and in specialty primary insurance, we expect a satisfactory overall result for HGS that before changing the equalization reserve is expected to be at the previous year´s level. On the basis of stable exchange rates, we expect a further increase in the gross premium income for the 2020 financial year due to an expansion of business activities.

We will adhere to our selective underwriting policy despite hardening tendencies in several market segments. Thanks to our diverse and good customer relationships and access to the global HDI network, we believe we are well positioned in a highly competitive environment.

The Covid-19 pandemic can lead to economic disruptions that might affect also our clients. On the claims side we do expect manageable additional losses. In principle pandemic risk are not covered in property and casualty insurance. We might be, however, exposed by event cancellation and business interruption. Losses on financial markets might affect assets under own management. At the same time there is an increasing level of uncertainty about the development going forward. We address this increased risk by a conservative asset allocation together with a strict asset-liability-matching. There is currently a high degree of uncertainty in the outlook, depending on the further development of the crisis and on the effectiveness of the actions taken.

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 requirements were undertaken in the year under review.

Lines and types of insurance operated

Direct written insurance business

Casualty insurance (without casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor vehicle insurance

Fire insurance

Householders' comprehensive insurance

Homeowners' comprehensive reinsurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal expense insurance

Assistance insurance

Other insurances

Reinsurance business assumed

Casualty insurance (without casualty insurance with guaranteed premium refunds)

Liability insurance

Motor third-party liability insurance

Other motor vehicle insurance

Fire insurance

Householders' comprehensive insurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal expense insurance

Other insurances

HDI

Annual Financial Statements

Balance sheet as of 31 December 2019

Assets (in EUR thousand)	31 December 2019				31 December 2018
A. Intangible fixed assets					
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				7,066	6,551
B. Investments					
II. Investments in affiliated companies and participations					
1. Shares in affiliated companies		70,462			135
2. Participations		1,159			0
			71,621		135
III. Other investments					
1. Bearer bonds and other fixed-income securities		279,875			213,746
2. Other loans					
a) Registered bonds	4,173				4,317
b) Promissory notes and loans	11,732				17,243
		15,905			21,560
3. Deposits with financial institutions		12,500			4,936
4. Other investments		18,880			12,462
			327,160		252,704
IV. Deposits retained on assumed reinsurance business			2,050		1,965
				400,831	254,804
C. Receivables					
I. Receivables arising from direct written insurance business due from insurance intermediaries			570,462		410,761
II. Receivables from reinsurance business			49,138		53,293
of which due to affiliated companies: EUR 5,888k (previous year: EUR 6,266k)					
III. Other receivables			6,925		38,258
of which due to affiliated companies: EUR 2,957 (previous year: EUR 22,359k)				626,525	502,312
D. Other assets					
I. Tangible fixed assets and inventories			882		1,112
II. Current accounts with financial institutions			122,241		78,594
				123,123	79,706

Amount carried over				1,157,545	843,373
E. Accrued and deferred items					
I. Deferred interest and rents			2,166		1,600
II. Other accrued and deferred items			956		267
				3,122	1,867
Total assets				**1,160,667**	**845,240**

Equity and liabilities (in EUR thousand)	**31 December 2019**				**31 December 2018**
A. Equity					
I. Subscribed capital			121,600		121,600
II. Capital reserve			80,282		0
III. Retained earnings					
1. Statutory reserve			3,040		3,040
IV. Balance sheet profit			33,405		44,205
				238,327	168,845
B. Subordinated liabilities				83,333	78,645
C. Technical provisions					
I. Unearned premiums					
1. Gross amount		668,838			449,481
2. less: Share for business ceded to reinsurers		550,019			364,721
			118,819		84,760
II. Provisions for outstanding claims					
1. Gross amount		1,978,862			1,645,842
2. less: Share for business ceded to reinsurers		1,803,712			1,493,023
			175,150		152,819
III. Equalisation reserve and similar provisions			34,369		22,447
IV. Other technical provisions					
1. Gross amount		0			1,830
2. less: Share for business ceded to reinsurers		0			1,556
			0		274
				328,338	260,300
D. Other provisions					
I. Provisions for pensions and similar obligations			1,391		997
II. Provisions for taxes			1,019		149
III. Other provisions			14,967		10,157
				17,377	11,303

Amount carried over				667,375	519,093
E. Deposits retained on reinsurance ceded				19,084	14,830
F. Other liabilities					
I. Liabilities from direct written insurance business due to intermediaries			18,433		9,814
II. Payables on reinsurance business			424,426		291,468
of which due to affiliated companies: EUR 421,663k (previous year: EUR 269,229k)					
III. Other liabilities			31,349		10,035
of which taxes: EUR 6,691k (previous year: EUR 3,548k) due to affiliated companies: EUR 2,046k (previous year. EUR 4,998k)				474,208	311,317
Total equity and liabilities				**1,160,667**	**845,240**

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, 14 February 2020

Rehbock, Responsible Actuary

Income Statement

in EUR thousand	2019 1 January - 31 December			2018 1 January - 31 December
I. Underwriting account				
1. Premiums earned for own account				
a) Gross premiums written	1,426,473			946,760
b) Premiums ceded to reinsurance	1,297,321			855,953
		129,152		90,807
c) Change to the gross premium reserve unearned	-207,048			-51,160
d) Adjustment of reinsurers' share in gross premiums unearned	-175,212			-39,295
		-31,836		-11,865
			97,316	78,942
2. Other underwriting income for own account			163	493
3. Expenses on insurance claims for own account				
a) Claims payments				
aa) Gross amount	716,884			581,135
bb) Reinsurers' share	649,116			519,968
		67,768		61,167
b) Changes to the provision for outstanding claims				
aa) Gross amount	283,382			6,459
bb) Reinsurers' share	264,910			-1,786
		18,472		8,245
			86,240	69,412
4. Change to other net underwriting provisions				
a) Other net underwriting provisions		-275		275
			-275	275
5. Expenses on profit-related and not profit-related premium refunds for own account			792	0
6. Expenses for insurance operations for own account				
a) Gross expenses for insurance operations		381,480		275,342
b) less: commissions and profit shares received for business ceded to reinsurance		392,319		274,136
			-10,839	1,206
7. Other underwriting expenses for own account			1,958	765
8. Subtotal			19,603	7,777
9. Change to the equalisation reserve and similar provisions			11,922	12,262

Amount carried over				7,681	-4,485
10. Underwriting result for own account				7,681	-4,485

in EUR thousand	2019 1 January - 31 December				2018 1 January - 31 December
II. Non-underwriting account					
1. Investment income					
a) Income from equity investments of which: from affiliated companies EUR 151k (previous year: EUR 0k)		151			0
b) Income from other investments					
aa) Income from other investments	5,188				4,479
		5,188			4,479
c) Income from write-ups		649			337
d) Gains on disposal of investments		1,008			340
			6,996		5,156
2. Investment expenses					
a) Investment management expenses, interest expenses and other expenses related to capital investments		583			586
b) Write-downs of investments of which unscheduled write-downs according to Section 253 Paragraph 3 Sentence 6 of the German Commercial Code (HGB) EUR 0k (previous year: EUR 0k)		1,098			1,204
c) Losses on disposal of investments		144			771
			1,825		2,561
			5,171		2,595
				5,171	2,595
3. Other income			21,325		11,223
4. Other expenses			44,684		27,247
				-23,359	-16,024
5. Result from ordinary activities				-10,507	-17,913
6. Taxes on income and profit			2,311		2,064
7. Other taxes			0		522
				2,311	2,586
8. Income from loss assumption				0	20,500
9. Annual net profit				-12,818	0
10. Profit carried forward from previous year				44,205	44,205
11. Withdrawals from capital reserve				2,018	0
Balance sheet profit				**33,405**	**44,205**

Attachment

General information

HDI Global Specialty SE has its registered office at Roderbruchstrasse 26, 30655 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 Regulation on the Accounting of Insurance Undertakings *(Verordnung über die Rechnungslegung von Versicherungsunternehmen; RechVersV)*.

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

Valuation of assets

Intangible 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 participations 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 financial 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 tax assets** are recognised in the commercial balance sheet in the event of a resulting surplus of assets.

Valuation of equity and liabilities

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

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

The **unearned 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 written insurance business:

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

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

For the assumed reinsurance business, the provision for outstanding claims 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 Regulation on the Accounting of Insurance Undertakings (RechVersV). The equalisation reserve is formed according to the Annex to Section 29 of the Regulation on the Accounting of Insurance Undertakings (RechVersV). The calculation of the provision for nuclear installations is based on Section 30 Paragraph 2 of the Regulation on the Accounting of Insurance Undertakings (RechVersV). The provision for major risks for the product liability in connection with pharmaceutical risks is determined pursuant to Section 30 Paragraph 1of the Regulation on the Accounting of Insurance Undertakings (RechVersV).

Other 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.

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

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 Ordinance (Rück- AbzinsVO) at 2.71% with an assumed remaining term of 15 years. The pension provision is calculated using the projected unit credit method. A salary trend of 2.50% and a pension trend of 1.74% were assumed. Fluctuation probabilities were determined separately depending on age and gender. The benefit adjustment due to profit participation from reinsurance policies was taken into account in the amount of 0.0%. Valuation is based on the withdrawal probabilities of the "2018G Mortality Tables", 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 profit 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 calculation bases of the premium calculation plus the profit shares having been allocated already and, hence, the amortised cost.

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

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

Foreign currency translation

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

Notes to the assets

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

in EUR thousand	2018	2019					
	Balance sheet amounts as at 31 December	Additions	Disposals	Write-ups	Write-downs	Currency effects	Balance sheet values as at 31 December
A. Intangible fixed assets							
1. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	6,551	2,980	0	0	2,465	0	7,066
Total A.	**6,551**	**2,980**	**0**	**0**	**2,465**	**0**	**7,066**
B. I. Investments in affiliated companies and participations							
1. Shares in affiliated companies	135	70,462	135	0	0	0	70,462
2. Participations	0	1,159	0	0	0	0	1,159
3. Total B. I.	**135**	**71,621**	**135**	**0**	**0**	**0**	**71,621**
B. II. Other investments							
1. Bearer bonds and other fixed-income securities	213,746	182,735	126,553	649	1,098	10,396	279,875
2. Other loans							
a) Registered bonds	4,317	0	144	0	0	0	4,173
b) Promissory notes and loans	17,243	0	5,511	0	0	0	11,732
3. Deposits with financial institutions	4,936	27,324	20,060	0	0	300	12,500
4. Other investments	12,462	6,435	17	0	0	0	18,880
5. Total B. II.	**252,704**	**216,494**	**152,285**	**649**	**1,098**	**10,696**	**327,159**
Total	**259,390**	**291,095**	**152,420**	**649**	**3,563**	**10,696**	**405,847**

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 1,098k. Other investments with a book value of EUR 18,880k (previous year: EUR 12,462k) were not written down in an amount of EUR 55k (previous year: EUR 91k) due to an only temporary impairment resulting from effects over time. The corresponding financial assets had a book value of EUR 1,681k and a fair value of EUR 1,626k on the balance sheet date. In the opinion of the Company, the omitted write-downs are temporary impairments. For Other investments, there are residual payment obligations in the amount of EUR 6,343k.

Details of shareholdings

Shares in affiliated companies and participations are listed below.

List of shareholdings 2019

Name and registered office of the company Amounts in 1,000 currency units each	Amount of the share in capital in %	Currency	Equity (Section 266 Paragraph 3 of the German Commercial Code (HGB)) in EUR thousand	Result of the past financial year in EUR thousand
Shares in affiliated companies				
Svedea AB, Stockholm	76.5	SEK	6,580	4,667
	SEK exchange rate as of 31 December 2019: 10.4372			
Participations				
VOV GmbH; Cologne	35.5	EUR thousand	2,017*	23*
Amaniki GmbH, Frankfurt am Main	49.9	EUR thousand	25*	0*

*Values as of 31 December 2018

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

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

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 balance sheet date.

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

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

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

in EUR thousand	Fair values 31 December 2019
B. I. Investments in affiliated companies and participations	
1. Shares in affiliated companies	70,462
2. Participations	1,159
B. II. Other investments	
1. Bearer bonds and other fixed-income securities	282,824
2. Other loans	
a) Registered bonds	4,200
b) Promissory notes and loans	11,828
3. Deposits with financial institutions	12,500
4. Other investments	19,531
Total	**402,504**

Accrued and deferred items

in EUR thousand	2019	2018
Deferred interest and rents	2,166	1,600
Other accrued and deferred items	956	267
Total	**3,122**	**1,867**

Deferred tax assets

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 surplus of assets.

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

Notes to equity and liabilities

Equity

Subscribed capital

The Company's capital stock remained unchanged at EUR 121,600k as of 31 December 2019. 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 balance sheet 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 80,282k. In the financial year, payments of EUR 82,300k and withdrawals of EUR 2,018k were made.

The balance sheet profit includes a profit carried forward amounting to EUR 33,405k.

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

Underwriting provisions (gross)

in EUR thousand	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	Total		Of which gross provisions for outstanding claims		Of which equalisation reserve and similar provisions	
Direct written insurance business						
Casualty insurance	18,265	17,602	14,065	13,327	-	-
Liability insurance	1,306,586	1,072,098	1,066,047	932,077	779	66
Motor third-party liability insurance	56,662	124,697	30,181	70,769	21,316	17,171
Other motor vehicle insurance	136,497	38,741	70,797	24,273	5,288	928
Fire and property insurance	561,431	419,359	389,875	303,065	8	-
Of which:						
Fire insurance	381,355	260,493	257,833	190,572	-	-
Householders' comprehensive insurance	1,013	15,347	340	10,780	8	-
Homeowners' comprehensive reinsurance	39	-	4	-	-	-
Other property insurance	179,024	143,519	131,698	101,713	-	-
Marine and aviation insurance	267,698	200,327	186,453	146,355	1,587	1,580
Credit and collateral insurance	68,408	51,298	21,163	15,317	1,092	487
Legal protection insurance	41,878	18,177	40,932	17,153	-	-
Assistance insurance	249	173	176	92	-	-
Other insurances	38,605	30,474	26,059	26,525	-	-
Total	2,496,279	1,972,946	1,845,748	1,548,953	30,070	20,233
Reinsurance business assumed	185,790	146,654	133,114	96,889	4,299	2,215
Total insurance business	**2,682,069**	**2,119,600**	**1,978,862**	**1,645,842**	**34,369**	**22,447**

Other provisions

in EUR thousand	**2019**	**2018**
Provisions for pensions and similar obligations	1,391	997
Provisions for taxes	1,019	149
Other provisions	14,967	10,157
Provisions for personnel expenses	9,065	6,991
Provisions for supplier invoices	4,475	2,394
Other provisions	1,427	772
Total	**17,377**	**11,303**

The difference amount pursuant to Section 253 Paragraph 6 Sentence 1 of the German Commercial Code (HGB) is EUR 291k (previous year: EUR 261k).

As of the balance sheet date, assets with a fair value of EUR 7k were offset against corresponding liabilities. 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 45k as at the reporting date. In this context, interest income from the cover assets amounting to EUR 192.66 was netted with interest expenses amounting to EUR 1,191.46.

Other liabilities

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

Notes to the Income Statement

Gross premiums written by region of origin

in EUR thousand	2019	2019	2019	2018	2018	2018
	Germany	EU/EEA	Third countries	Germany	EU/EEA	Third countries
Casualty insurance	1,149	9,610	3,790	302	6,245	5,641
Liability insurance	11,693	201,504	268,143	5,648	89,533	184,381
Motor third-party liability insurance	11,538	-6	15,225	4,462	51,679	42,419
Other motor vehicle insurance	-	57,893	83,960	-	11	31,245
Fire and property insurance	1,853	136,891	249,939	2,207	94,280	160,524
Of which:						
Fire insurance	315	90,311	211,287	539	58,411	124,143
Householders' comprehensive insurance	60	1,398	-	-	-5	-
Homeowners' comprehensive reinsurance	60	-	-	-	-	-
Other property insurance	1,418	45,182	38,652	1,667	35,873	36,381
Marine and aviation insurance	6,905	96,395	58,138	6,279	49,620	32,783
Credit and collateral insurance	-	4,054	27,301	-	4,498	25,137
Legal protection insurance	-	24,822	697	-	31,613	-
Assistance insurance	-	415	-	-	346	-
Other insurances	2,399	28,739	12,006	2,800	10,316	8,550
Total	**35,537**	**560,317**	**719,199**	**21,698**	**338,140**	**490,680**

Expenses for insurance operations for own account

in EUR thousand	2019	2018
Gross expenses for insurance operations	381,480	275,342
Of which acquisition costs	363,604	257,930
Of which administrative expenses	17,876	17,412
Less: commissions and profit shares received for business ceded to reinsurance	392,319	274,136
Total	**-10,839**	**1,206**

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

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	Underwriting result for own account	Number of insurance policies concluded for at least one year
Direct written 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
Household contents 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
Marine 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
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**

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

Investment income

in EUR thousand	2019	2018
1. Income from equity investments	151	-
2. Income from other investments	5,188	4,479
3. Income from write-ups	649	337
4. Gains on disposal of investments	1,008	340
Total	**6,996**	**5,156**

Investment expenses

in EUR thousand	2019	2018
1. Investment management expenses, interest expenses and other expenses related to capital investments	583	586
2. Write-downs of investments	1,098	1,204
3. Losses on disposal of investments	144	771
Total	**1,825**	**2,561**

Unscheduled write-downs of EUR 1,098k (previous year: EUR 1,204k) were made 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	2019	2018
1. Commissions of any kind of the insurance agents within the meaning of Section 92 of the German Commercial Code (HGB) for direct written insurance business	325,420	222,601
2. Wages and salaries	27,440	10,347
3. Social security contributions and expenses for employee benefits	3,947	1,929
4. Expenses for retirement benefits	2,647	1,842
5. Total expenses	**359,454**	**236,719**

Other disclosures

Other income and other expenses include exchange rate gains of EUR 13,706k (previous year: EUR 5,586k) and exchange rate losses of EUR 9,327k (previous year: EUR 6,302k).

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). Congruently covered liabilities are combined with the assets covering them per currency to form a balance sheet valuation unit each as part of portfolio hedges. The volume amounts to EUR 165,907k (previous year: EUR 145,132k). 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 of about EUR 2,744k (previous year: EUR 2,229k) from long-term rental agreements for our locations.

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

The average number of employees in the financial year was 247 (previous year: 126), of which 229 (previous year: 114) were full-time and 18 (previous year: 12) part-time employees.

The total remuneration of the management amounted to EUR1,860k.

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, the solvency overview as of 31 December 2019 and the provision of tax compliance services on wage tax issues as well as the migration in connection with the introduction of a new IT application were reviewed.

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 balance sheet 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.

Supplementary Report

The Company has chosen a one-tier system with a board of directors effective on March 2, 2020.

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

Torsten Leue (until 31 May 2019)
Chairman (until 31 May 2019)
Chairman of the Board of Management of Talanx AG

Ulrich Wallin
Chairman (from 01 June 2019)
Former Chairman of the Board of Management of Hannover Rück SE

Dr. Christian Hinsch (until 31 May 2019)
Former Chairman of the Board of Management HDI Global SE

Jens Wohlthat (from 01 June 2019)
Member of the Board of Management HDI Global SE

Roland Vogel (from 01 June 2019)
Member of the Board of Management of Hannover Rück SE

Governing bodies from 02 March 2020

Executive Directors

Ralph Beutter
Executive Director of HDI Global Specialty SE

Andreas Bierschenk
Executive Director of HDI Global Specialty SE

Thomas Stöckl
Executive Director of HDI Global Specialty SE

Richard Taylor
Executive 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
Member of the Board of Management HDI Global SE

Roland Vogel
Member of the Board of Management of Hannover Rück SE

Ralph Beutter
Executive Director of HDI Global Specialty SE

Hannover, 19 March 2020

The Executive Directors

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