



HDI Global SE at a glance

		2017	2016
Gross premium income	EUR million	4,401	3,999
Increase/decrease in gross premium income	%	10.1	0.5
Income from premiums earned for own account	EUR million	2,157	1,937
Expenses on insurance claims for own account	EUR million	1,901	1,509
Loss ratio for own account ¹⁾	%	88.2	77.9
Expenses for insurance operations for own account	EUR million	527	431
Expense ratio for own account ²⁾	%	24.4	22.3
Underwriting result before equalisation reserve for own account	EUR million	-279	-9
Combined ratio for own account ³⁾	%	112.6	100.2
Investments	EUR million	6,637	6,661
Investment income	EUR million	299	285
Non-underwriting result ⁴⁾	EUR million	244	223
Result from ordinary activities	EUR million	-167	167
Tax expense	EUR million	34	45
Loss (-)/ profit transferred under a profit-and-loss transfer agreement	EUR million	-204	68
Operating profit/loss (result from ordinary activities less changes in the equalisation reserve)	EUR million	-35	215
Capital, reserves and underwriting provisions			
Equity	EUR million	407	407
Subordinated liabilities	EUR million	200	200
Equalisation reserve and similar provisions for own account	EUR million	731	599
Other underwriting provisions for own account ⁵⁾	EUR million	5,629	5,389
Total	EUR million	6,967	6,595
Of earned premiums for own account	%	323.0	340.5
Ratio of underwriting provisions for own account ⁶⁾	%	236.6	252.3
Insurance contracts	1,000	1,004	780
Reported claims	1,000	255	230
Average number of employees throughout the year	Number	2,871	2,679

1) Expenses on insurance claims for own account as a percentage of premiums earned for own account

2) Expenses on insurance operations for own account as a percentage of premiums earned for own account

3) Sum of expenses on insurance claims for own account and expenses on insurance operations for own account as a percentage of earned premiums for own account

4) Sum of net investment income and other comprehensive income

5) Excluding provision for premium refunds

6) Provision for outstanding claims for own account as a percentage of earned premiums for own account

For computational reasons, the tables may show rounding differences of +/- one unit count.

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

Contents

2	Letter from the Chairman
4	HDI world-wide
6	Representatives of the member groups of HDI V. a. G
8	Governing bodies of the Company
10	Report of the Supervisory Board
12	Management report
42	Appendices to the management report
44	Financial statements
44	Balance sheet
46	Income statement
48	Notes to the financial statements
78	Auditors' report
86	Addresses
	Contact information



Ladies and Gentlemen,

Natural disasters made 2017 an expensive year for the insurance industry. According to industry estimates, the insured losses totalled approximately USD 135 billion worldwide, making it the most expensive year of natural disasters in the history of the insurance industry. In particular, the three hurricanes “Harvey”, “Irma” and “Maria” inflicted enormous losses. On top of this, there were losses as a result of earthquakes in Mexico and other natural disasters.

Due to this development, 2017 was a disappointing year for HDI Global SE. Our figures still looked very good until mid-August. But then we and our customers were hit by the full force of the aforementioned NatCat losses. In addition, we also had to bear far more man-made losses than budgeted. As a result, our major loss budget was far exceeded. Furthermore, the run-off result from prior year claims and claims incurred but not yet reported was unusually low. As a consequence, the underwriting result fell to EUR -411 million (prior year: EUR -56 million). The decrease could not be compensated by income from investments; consequently, net operating income amounted to EUR -167 million (prior year: EUR 167 million). Thus, it was necessary for our parent company Talanx AG to assume losses in the amount of EUR 204 million based on the existing profit-and-loss transfer agreement (prior year: transfer of net income in the amount of EUR 68 million).

In contrast, the development of our gross written premiums was satisfactory with an increase of around ten percent to EUR 4.4 billion. We realised premium growth in line with our strategy in particular in foreign markets, especially in Australia, Hong Kong, the United Kingdom, France and Japan.

The business in the marine and motor vehicle lines performed well in the past financial year. In the marine line, we succeeded in decreasing the combined ratio significantly with the help of our measures to optimise the portfolio. At the same time, we succeeded in considerably increasing the gross written premiums, despite these measures. That is an impressive success. In the motor vehicle fleet line, we succeeded in continuing down the path of income optimisation pursued in prior years also in 2017. Meanwhile, we stopped the decrease in premiums in prior years and are now posting growth again in this line, which however can also be attributed in part to the acquisition of HDI Versicherung AG’s fleet business and transfers from a subsidiary’s portfolio.

In contrast, the premium-risk relationship remains out of balance in the fire insurance line. Our balanced portfolio strategy may have brought the first improvements in the German business in the past few years. But further steps are necessary – in Germany as well as in the foreign markets. Therefore, greater efforts on the part of the line and all four divisions are needed in order to lead the fire

insurance line back to profitability. We are aiming to improve the premium-risk relationship by an average of 15 percent. We review numerous customer relationships in order to bring the risks that we take on sufficiently in line with the premiums. Where this is not possible, we will not be able to make our capacities available in the future.

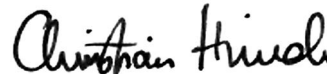
Our expansion into the SME and mid-market segment is right at the top of our strategic agenda for the current financial year. That applies for Germany as well as for the international business. For this purpose, we are developing, among other things, new insurance products for attractive niche markets, for example in sports insurance and in travel insurance. We are also creating new sales platforms in the internet so that our customers can easily enter into new policies online. We are also opening additional new sales offices in important industrial regions located in foreign countries – most recently in Switzerland (Bern) and in northern France (Lille). By the way: You can find out where we are located around the world in the address section of this annual report starting on page 106.

We will also continue to advance our digitalisation projects, where we have already made much progress. But we are still far from achieving our goal and still have major challenges ahead of us. Therefore, we invest substantial resources in this area – both financial as well as personnel.

At the end of a year of historical losses, the members of the Board of Management would like to thank all of our colleagues in the insurance lines and business groups and at all of our locations around the world. They ensure that our policyholders can depend on us when they need our help the most: when they experience a loss.

Likewise, we would also like to thank our customers and business partners for the trust they place in us. The security of their company is the focus of our work today and tomorrow.

Sincerely,



Dr Christian Hinsch

Chairman of the Board of Management of HDI Global SE

HDI world-wide*

Argentina

HDI Seguros S.A.
Buenos Aires

Australia

HDI Global SE
Sydney/Brisbane/Melbourne

Austria

HDI Versicherung AG
Vienna

Bahrain

HDI Global SE
Manama

Belgium

HDI Global SE
Brussels/Antwerp

Brazil

HDI Global Seguros S.A.
São Paulo

Canada

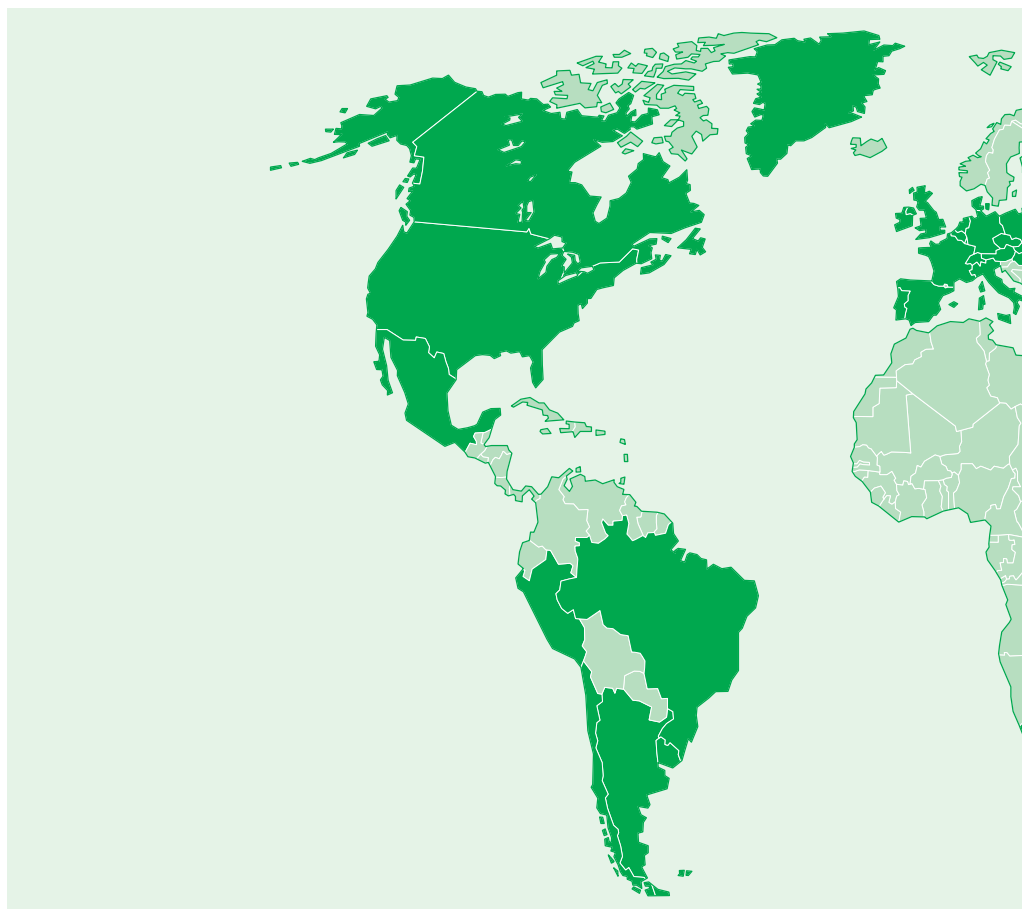
HDI Global SE
Toronto

Chile

HDI Seguros S.A.
Santiago

China

HDI Global SE
Hong Kong



Czech Republic

HDI Versicherung AG
Prague

Denmark

HDI Global SE
Copenhagen

France

HDI Global SE
Paris/Lille/Lyon

Germany

HDI Global SE
Hannover

Greece

HDI Global SE
Athens

Hungary

HDI Versicherung AG
Budapest

India

Magma HDI General Insurance Company
Limited
Mumbai

Ireland

HDI Global SE
Dublin

**Italy**

HDI Global SE
Milan/Genova

Japan

HDI Global SE
Tokyo

Malaysia

HDI Global SE
Labuan

Mexico

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

The Netherlands

HDI Global SE
Rotterdam/Amsterdam

HDI-Gerling Verzekeringen
Rotterdam/Amsterdam

Peru

HDI Seguros S.A.
Lima

Poland

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

Russia

OOO Strakhovaya Kompaniya
„HDI Strakhovanie“
Moscow

Singapore

HDI Global SE
Singapore

Slovakia

HDI Versicherung AG
Bratislava

South Africa

HDI Global SA Limited
Johannesburg

Spain

HDI Global SE
Madrid/Barcelona

Switzerland

HDI Global SE
Zurich/Bern/Lausanne

Turkey

HDI Sigorta A.Ş.
Istanbul

United Kingdom

HDI Global SE
London/Birmingham/Manchester/Glasgow

USA

HDI Global Insurance Company
Chicago/Los Angeles

Vietnam

PVI Insurance Corporation
Hanoi
(minority interest)

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

01 South German

Iron and Steel Industry

Dr Michael H Müller
Chairman of the Supervisory Board of
Saarstahl AG and the
stock corporation of Dillinger
Hüttenwerke,
Lawyer,
Saarbrücken

Dr Benjamin Rieger
Managing Partner of
RUD Ketten Rieger & Dietz
GmbH u. Co. KG,
Aalen-Unterkochen

02 West German

Iron and Steel Industry

Dipl Kfm Bruno Gantenbrink
Personally liable partner of
BEGA Gantenbrink-Leuchten KG,
Menden

Richard A Hussmanns
Member of the Management Board of
OTTO FUCHS KG,
Meinerzhagen

03 North German

Iron and Steel Industry

Jürgen Stulz
Managing Director of
STULZ Holding GmbH and of
STULZ GmbH,
Hamburg

04 Steel Mills and Smelters

Ulrich Grillo
Chairman of the Board of
Management of
Grillo-Werke AG,
Duisburg

05 Electrical, Precision Mechanics and Optical Industry

Prof Dr Ing Udo Bechtloff
Member of the Advisory Board of
KSG Leiterplatten GmbH,
Gornsdorf

Dr Jochen Kress
Member of the Management Board of
MAPAL Fabrik für
Präzisionswerkzeuge,
Dr. Kress KG,
Aalen
(since 21 June 2017)

Manfred Neubert
Chairman of the
Board of Directors of
SKF GmbH,
Schweinfurt
(until 21 June 2017)

06 Companies in the South German

Precious Metals and

Non-precious Metals Industry

Mag Heimo Hübner
Managing Director of
MS-Schramberg GmbH & Co. KG,
Magnet- und Systemlösungen,
Schramberg-Sulgen

10 Mining Companies

Dr Jürgen Rupp
Member of the Board of Management of
RAG Aktiengesellschaft,
Herne

20 Chemicals Companies

Dr Christof Günther
Managing Director of
InfraLeuna GmbH,
Leuna

Dr Reinhard Uppenkamp
Chairman of the Board of Management of
Berlin-Chemie AG,
Berlin

30 Food Companies

Dipl.-Kfm. Rainer Thiel
Chairman of the Advisory Board of
KATHI Rainer Thiele GmbH,
Halle (Saale)

31 Breweries and Malthouses

Alfred Müller
 Managing Director of
 Bitburger Holding GmbH and of
 Bitburger Braugruppe GmbH,
 Bitburg

**38 Wholesale
and Export Companies**

Andreas Möbius
 Managing Director of
 VGA GmbH,
 Berlin

40 Paper and Printing Companies

Dipl Ökonom Thomas Thumm
 Member of the Management Board of
 HERMA GmbH,
 Filderstadt

**55 Ceramics and Glass
Companies**

Dipl Kfm Nikolaus Wiegand
 Managing Director of
 Wiegand-Glas GmbH,
 Steinbach am Wald
 (until 21 June 2017)

58 Medical and Welfare Services

Dr Andreas Tecklenburg
 Vice President and Member of
 the Board of Directors
 responsible for the
 Patient Care Division of
 Hannover Medical School
 (MHH),
 Hannover

60 Wood and Lumber Companies

Dr Peter M. Hamberger
 Managing Director of
 Hamberger Industrierwerke GmbH,
 Stephanskirchen

70 Textile and Leather Companies

Dipl-Kfm Heiko A. Westermann
 Managing Partner of
 ROY ROBSON FASHION
 GmbH & CO. KG
 Lüneburg

81 Building and Building

Materials Industry
 Christian Schnieder
 Managing Partner of
 GOLDBECK GmbH,
 Bielefeld

**82 Banks, Insurance Companies,
Administration, Liberal Professions**

Walter Eßer
 Lawyer,
 Aachen

 Dipl Ing Gerhard Heidbrink
 Chairman of the Board of
 Management of
 Extremus Versicherungs-AG,
 Sehnde

Dr med Hans-Ulrich Küver
 Neurologist and Psychiatrist,
 Hannover

Peter Wölker
 Lawyer,
 Ostbevern

83 Transport and Shipping Industry

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

**84 Energy and Utility
Companies**

Dipl Volkswirt Markus Scheib
 Managing Director of
 MiRO Mineraloelraffinerie
 Oberrhein GmbH & Co. KG, Karlsruhe

Governing bodies of the Company

Supervisory Board

Herbert Haas

Chairman

Burgwedel

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

Ulrich Weber

Deputy Chairman

Krefeld

Lawyer

Dr Erwin Möller

Deputy Chairman

Hannover

Chairman of the Supervisory Board of
M. M. Warburg & Co. Gruppe GmbH
(until 9 March 2017)

Dr. Joachim Brenk

Lübeck

Chairman of the Board of Management of
L. Possehl & Co. mbH
(since 9 March 2017)

Dr Michael Ollmann

Hamburg

Management Consultant
(since 9 March 2017)

Sebastian Gascard*

Isernhagen

Underwriter for third-party
liability insurance
HDI Global SE

Jutta Mück*

Oberhausen

Account manager
Sales medium-sized
enterprises (“Mittelstand”)
HDI Global SE

* Employee representative

Board of Management

Dr Christian Hinsch

Chairman

Burgwedel

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

Member of the Board of Management of HDI Global SE responsible for

- the Chairman duties as stipulated under the Rules of Procedure
- Compliance
- Internal Auditing

Dr Joachim ten Eicken

Member of the Board of Management of HDI Global SE responsible for

- Industrial property insurance line (operations/claims)
- Engineering insurance (operations/claims)
- Marine and credit insurance (operations/claims)
- Safety engineering systems for the property/engineering/marine/motor insurance lines
- Supervision of HDI Risk Consulting GmbH

Frank Harting

Member of the Board of Management of HDI Global SE responsible for

- Aviation and Group accident insurance line
- IT-Demand
- Industry division
- Advisory Boards
- Marketing

Dr Edgar Puls

Member of the Board of Management of HDI Global SE responsible for

- European Operation Foreign branch offices - Continental Europe
- Industrial motor insurance line (operations/claims)

Dr Stefan Sigulla

Member of the Board of Management of HDI Global SE responsible for

- Industrial liability and legal protection insurance line -D&O insurance, Cyber insurance (operations/claims/security technology)
- Corporate division

Jens Wohlthat

Member of the Board of Management of HDI Global SE responsible for

- Global operations excluding foreign branch offices - Continental Europe
- Coordination of general issues in the international industrial lines

Ulrich Wollschläger

Member of the Board of Management of HDI Global SE responsible for

- Accounting
- Premium Collections
- Investments
- Controlling
- Money Laundering Prevention
- Risk Management
- Coordination of passive reinsurance

Report of the Supervisory Board

The Supervisory Board monitored the conduct of the business by the Board of Management in the past financial year 2017 on a continuous basis in accordance with the law, the articles of association and rules of procedure and arranged for comprehensive information about the business performance and the financial position of the Company to be presented by the Board of Management in regular written and verbal reports. The Chairman of the Supervisory Board was further informed by the Chairman of the Board of Management about important developments and upcoming decisions on a regular basis.

The Supervisory Board convened for three ordinary meetings on 9 March 2017, 15 August 2017 and 3 November 2017. In the meetings, the reports of the Board of Management on the current financial year and the economic and financial performance of the Company were discussed in detail. As part of the written and verbal reporting, the Supervisory Board was also informed about the Company's risk position as well as any changes that had occurred together with their causes. In addition, the Supervisory Board convened for a constituent session on 9 March 2017.

The Supervisory Board generally participated in the decisions of the Board of Management within the scope of its legal and statutory responsibility and assured itself that the management of the Company was conducted in a manner that was lawful, proper, appropriate and profitable. During the 2017 financial year, there was no occasion for the Supervisory Board to undertake examinations within the meaning of section 111(2) of the German Stock Corporation Act (Aktengesetz; AktG).

The Supervisory Board's Personnel Committee convened for three meetings in the reporting period and made recommendations to the full Supervisory Board regarding resolutions, in particular with respect to the remuneration of the members of the Board of Management. With a view to section 87(1) AktG, horizontal and vertical remuneration aspects were applied in comparison and orientation. The Nominating Committee convened in the run-up to the new election of the shareholder representatives on the Supervisory Board at the Annual General Meeting held on 9 March 2017, where it provided advice on potential candidates for the Supervisory Board and offered the Supervisory Board corresponding candidate recommendations for the Annual General Meeting.

Points of focus for the deliberations in plenary sessions

The advice provided to the Supervisory Board focused, among other things, on the further implementation of the globalisation strategy, the course of the restructuring activities in the fire and marine insurance lines and the initiated IT optimisation projects. Furthermore, the operational planning of the Company for financial year 2018 was discussed in detail.

To the extent that the transactions and measures taken by the Board of Management required the approval of the Supervisory Board in accordance with the law, the articles of association and the rules of procedure, resolutions to that effect were adopted after a review and deliberations.

The Supervisory Board satisfied itself that the internal control and risk management systems were performing well and received ongoing reports on this from the Board of Management.

Audit of the annual financial statements

The annual financial statements as at 31 December 2017 as well as the management report presented by the Board of Management, including the accounting, were audited by KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The auditors were appointed by the Supervisory Board, which also awarded the specific audit engagement.

The audit did not lead to any reservations. The unqualified audit opinion states that the accounting and the annual financial statements present fairly, in all material respects, the net assets, financial position and results of operations, and that the management report is consistent with the annual financial statements. The documentation for the annual financial statements and the KPMG AG audit reports were forwarded to all Supervisory Board members on a timely basis.

The independent auditor was present at the meeting that discussed the annual financial statements and the management report to report on the conduct of the audit, and was available to the Supervisory Board to provide further information. The Supervisory Board discussed the annual financial statements prepared by the Board of Management, reviewed the audit report of the independent auditor, and addressed follow-up questions to the independent auditor on some specific points. The Supervisory Board arrived at the conclusion that the audit report was in compliance with sections 317 and 321 of the German Commercial Code (Handelsgesetzbuch; HGB) and that it did not raise any concerns. The Supervisory Board further concluded that the management report satisfied the requirements in section 289 HGB and conformed to the statements in the reports to the Supervisory Board pursuant to section 90 AktG. The management report was also consistent with the Supervisory Board's own assessment of the Company's position.

In accordance with the final result of the review of the annual financial statements and the management report undertaken by the Supervisory Board, we concurred with the auditor's opinion and approved the annual financial statements as prepared by the Management Board on 9 March 2018, which are thereby adopted. The management report, and in particular the statements made therein regarding the future development of the Company, were also approved.

Composition of the Supervisory Board and the Board of Management

The composition of the Board of Management did not change in the 2017 reporting period. The Annual General Meeting held on 9 March 2017 reelected Messrs. Haas and Weber as members of the Supervisory Board in the periodic election of the shareholder representatives on the Supervisory Board; they were subsequently elected respectively as the Chairman and the Vice Chairman of the Supervisory Board in the constituent session of the Supervisory Board. Dr. Möller was no longer eligible for reelection for reasons of age. Dr. Joachim Brenk and Dr. Michael Ollmann were newly elected by the Annual General Meeting as the shareholder representatives on the Company's Supervisory Board.

The Supervisory Board wishes to thank the members of the Board of Management and all employees for their commitment and contribution during the reporting period.

Hannover, 9 March 2018

For the Supervisory Board

Herbert K Haas
(Chairman)

Management report

Basic principles of the Company

HDI Global SE is part of the Talanx Group and bundles the worldwide operations in the Industrial Lines Division. It is a wholly owned subsidiary of Talanx AG headquartered in Hannover, Germany.

For decades, HDI Global SE has been one of the leading insurance providers of corporate groups, industry and small and medium-sized enterprises in Germany. As a strong and expert partner, the Company comprehensively covers the need for tailor-made insurance solutions for industrial and commercial customers from the trade, production and service sectors. Beyond its prominent presence in the German market, the Company conducts significant activities in more than 130 countries through foreign branch offices, subsidiaries and sister subsidiaries as well as a network of partners. A strategic goal of HDI Global SE is the globalisation and thus the expansion of the Company to a global player for industrial lines. This includes the fact that the HDI brand traditionally is an established lead insurer for complex risks in the European core market and now transports this image and the corresponding expertise from a company history spanning over 100 years into identified target regions and hence the worldwide presence is expanded. Additional regional offices were established in the financial year. This way the Company can better serve globally active customers with local policies that guarantee that the specified service and insurance protection are provided worldwide for all included risks.

From third-party liability over motor insurance, accident as well as fire and property insurance to marine, financial lines and engineering insurance: HDI Global SE offers the complete range of products for the coverage of entrepreneurial risks. Global coverage in the form of international insurance programmes demonstrates in particular our operational capabilities.

Report on economic position

Macroeconomic and industry-specific environment

Macroeconomic development

The picture of the global economy in 2017 was characterised in particular by an increasing synchronisation of growth cycles in the major economies, whereby global trade was a central driver of growth. In addition, other factors driving growth included positive labour market momentum, rising investment growth and a recovery of commodity prices. Overall, economic growth further accelerated compared with 2016 both in the developed world as well as in developing countries. Monetary policies around the world remained very expansive, despite the first signs of a gradual normalisation.

The economy in the eurozone expanded by 0.7% in both the second and third quarters. Germany's GDP in the third quarter exhibited growth of 0.8% after an increase of 0.9% and 0.6% in the first half of the year. Consumer spending was the central driver of growth, but increasing investor activity and rising net exports also contributed to the acceleration of growth. The positive labour market trend continued; unemployment fell in November to its lowest level since 2009 (8.7%). At 0.4%, the economic growth trend in the United Kingdom was quite robust in the third quarter, despite high political and economic uncertainty in the context of the Brexit negotiations with the EU as well as the election of the British lower house of Parliament in June, even if an increasing divergence from other large economies was noticeable. At 4.3%, the unemployment rate in September was at its lowest level in more than 40 years.

After another weak start at the beginning of 2017, economic performance in the US was robust over the rest of the year. The annualised growth rate in the third quarter was 3.2% – the strongest growth in more than two years. Here as well, consumer spending was the central driver of growth that was supported by a solid labour market trend. Investment and export growth were other important drivers of the expansion. Economic growth in China stabilised after drifting lower for years. The annual rate of GDP growth throughout 2017 slightly exceeded the growth of 6.7% in 2016.

The monetary policies of the major central banks were very expansive also in 2017. With reference to the modest inflation trend, the central banks wanted to proceed very gradually in their efforts to normalise their monetary policies. In October, the ECB may have announced a 50% reduction in monthly bond purchases beginning in January 2018 to EUR 30 billion, but it simultaneously again extended its purchase programme by at least nine months up to and inclu-

ding September 2018. The US central bank continued its cycle of rising interest rates with three interest rate hikes in 2017 and also began to reduce the size of its balance sheet in October.

In the eurozone, the annual rate of inflation in December was 1.4% after just under 2.0% in the first quarter. The rate of inflation in the United Kingdom rose to its highest level in five years (November 2017: 3.2%), in particular due to the distinct pound sterling weakness. In the USA, the annual rate of inflation climbed to 2.1% at the end of the year.

Capital markets

In 2017, possible effects of the new US government's economic policy as well as political issues in the eurozone were at the fore in the bond markets. This included the elections in the Netherlands, France and Germany as well as the electoral reform in Italy. In the USA, rather disappointing economic data and the failure to implement the economic policy announced by the US President provided for a very volatile fluctuation of yields on US Treasuries – although interest rates in March, June and December were further increased. The US dollar showed itself to be very weak in this environment and lost more than 14.0% against the euro over the course of the year. The ECB reduced its purchasing programme from EUR 80 billion to EUR 60 billion per month. As a consequence, the trend on the bond markets was very volatile in the first half of the year. In particular, there was a clear increase in Bund yields following a press conference by the ECB at the end of June that was interpreted as an exit from quantitative easing. It rose in a short time for the 10-year maturity from around 0.25% to approximately 0.59% only to fall back to around 0.3% in the following month. All in all, the range of fluctuation over the course of the year between around 0.2% and around 0.6% was very low for 10-year German government bonds. In October 2017, the ECB resolved a further reduction of bond purchases to EUR 30 billion per month starting in January 2018.

AAA-rated government bonds and covered bonds had to accept slight to considerable price losses with few exceptions. Bank and corporate bonds still showed positive performance due to the further narrowing of risk premiums, in particular in the weaker-rated segments as well as in subordinated bonds, high-yield and emerging market bonds.

Thanks to a surprisingly positive economic environment, an inflation trend that fell short of expectations and therefore continued expansive monetary policy, stock markets rose considerably. In addition to robust profit growth, an increase in valuations also provided for higher share prices. The DAX rose by 12.5% in the full year, the S&P 500 by 19.4% and the Nikkei by 19.1%. The EURO STOXX 50 performed considerably weaker – albeit positively – at 6.5%.

International insurance markets

International property and casualty insurance exhibited slight premium growth overall for 2017. There was a slight increase in real growth compared with the prior year both in developed insurance markets as well as in emerging markets.

The losses from natural disasters in the year under review were significantly higher than in 2016 and also higher than the average for the past 10 years. After comparatively low losses from catastrophes in the first half of the year, the main reason for the high insured losses and total losses was extreme weather events in the second half of the year, in particular a series of three hurricanes in the USA and the Caribbean. These losses in conjunction with a soft market and low investment income for 2017 led to a worsening of profitability in international property and casualty insurance.

In the Western European markets, there was an upswing in premium growth in property and casualty insurance due to the more robust motor vehicle business in a few core countries.

Premium growth in the North American markets stagnated in the year under review after decreasing in the prior year.

In Central and Eastern Europe, there was a slight slackening of premium growth compared with 2016. Strong growth rates in Poland and Hungary could not compensate for the decrease in premiums in Russia in the overall view. Whereas rate increases in the obligatory motor third-party liability insurance line in Poland drove the positive trend, the decrease in Russia resulted likewise from the motor third-party liability insurance line. Premiums also decreased in Turkey, which can be attributed to the introduction of a premium cap in the motor vehicle business.

In Latin America, slight premium growth was again recorded overall for property and casualty insurance following a decrease in the prior year. However, the profitability of property and casualty insurance in Mexico was negatively impacted overall as a result of two earthquakes in the third quarter of 2017. For Brazil, a slowing of the decrease in premiums was recorded in the year under review.

The strongest premium growth in emerging markets was again generated in Asia with an increase in growth rates compared with the prior year. There was a positive influence as a result of sustained high infrastructure investments in the region that boosted premium income in property/casualty insurance. In addition, the motor vehicle business was a growth driver in Southeast Asia with the exception of Malaysia.

Property/Casualty Reinsurance exhibited negative underwriting results for the first time again in 2017 after several years of continuously positive results. This can be attributed primarily to the three major hurricanes of the season – “Harvey”, “Irma” and “Maria” – which affected the USA and the Caribbean. In addition, other natural disasters such as the two earthquakes in Mexico, wild fires in California or a cyclone in Australia had a negative impact on the loss profile.

German insurance industry

In property and casualty insurance, the German insurance industry recorded premium growth in 2017 at the prior year’s level. In the course of the phase of sustained low interest rates, this points to the continuation of disciplined underwriting on the part of property and casualty insurers.

The balance of property insurers in 2017 for payments as a result of the consequences of natural disasters was at a similar level as in the prior year. A large part of the damage was caused solely by the series of storms produced by the low pressure areas “Paul” and “Rasmund” in June and the beginning of July, in particular in the northern half of the country. With 200 ml per square metre within 24 hours, “Rasmund” was one of the most extreme heavy rain events in Germany. In addition, the storm “Xavier” caused heavy damage at the beginning of the fourth quarter, in particular in northern Germany and Berlin.

Legal and regulatory environment

Insurance companies (primary insurers and reinsurance companies), banks and capital investment companies are subject to comprehensive legal and financial supervision by supervisory authorities around the world in order to ensure the stability of the companies and financial markets as well as to protect the companies’ customers. In the Federal Republic of Germany, this is the responsibility of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin). On top of this, there is a comprehensive regulation of these companies’ operations by way of numerous legal provisions. The intensive further development of the legal framework that could already be observed in prior years and an associated intensification and increasing complexity continued unabated also in 2017.

In light of the Insurance Distribution Directive (IDD) to be implemented in Germany, projects were drawn up ahead of time in the affected Group companies in order to be able to implement the extensive provisions on a timely basis. The legal requirements are geared, in particular, towards the sufficient consideration of consumer aspects with respect to product design and distribution management as well as additional requirements with respect to the monitoring and governance of insurance products at insurance undertakings, but also with respect to insurance brokers.

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

On 29 March 2017, the government of the United Kingdom of Great Britain and Northern Ireland notified the President of the European Council of its intention to withdraw from the European Union in accordance with Article 50 of the Treaty on European Union (TEU). Upon expiration of the two-year period specified in the TEU, the United Kingdom will no longer be a part of the European Union. This exit will have an effect on the regulatory framework under

which companies from EU member states can operate in the United Kingdom. Various companies of the Talanx Group are active there in connection with their business operations and must adapt to the applicable new regulatory framework after the exit. However, the changes in the legal framework cannot be foreseen at this time and are not expected to be clarified anytime soon in light of the rather sluggish progress made so far in the Brexit negotiations between the representatives of the EU and the United Kingdom. Against this backdrop, the affected companies are working on solutions that should ensure the smooth continuation of business operations in the interest of the customers even in the worst-case scenario.

In December 2017, a comprehensive tax reform bill was passed in the USA that provides for new tax rules that can also have a significant financial effect on the subsidiaries active in the USA. A crucial aspect of this tax reform is the introduction of a “base erosion and anti-abuse tax” (BEAT) provision. As a result, payments and/or prepaid expenses to foreign-linked companies, which also include premiums for insurance risks ceded within the Group, also flow into the measurement basis for tax purposes.

Digitalisation, which has increased in significance in recent years, and the associated transition to digital, data-based business models and the resulting legal questions and challenges also play an increasingly important role for the companies of the Talanx Group. This applies in particular with respect to our customers’ data.

Insurance companies of the Talanx Group rely heavily on the collection of personal data. These data are collected, processed and utilised, among other things, to process applications, execute contracts and provide benefits in order to advise insurance policy holders according to their needs. The employees of the companies of the Talanx Group are thus aware of the associated responsibility with the appropriate handling of personal data. Protecting the rights of insurance policy holders and the protection of their private sphere are primary objectives of all Group companies. After the expiration of the two-year transitional phase, the EU General Data Protection Regulation (Datenschutz-Grundverordnung; DS-GVO) will become applicable law in May 2018 also in the Federal Republic of Germany. Against this backdrop, a project was initiated already in 2016 in order to ensure the timely implementation of the new statutory requirements. On 5 July 2017, the German Federal Data Protection Act (Bundesdatenschutzgesetz; BDSG), which likewise takes effect on 25 May 2018, was published in the Federal Law Gazette as Article 1 of the Act to Adapt Data Protection Law to Regulation (EU) 2016/679 and to Implement Directive (EU) 2016/680 (Gesetz zur Anpassung des Datenschutzrechts an die Verordnung (EU) 2016/679 und zur Umsetzung der Richtlinie (EU) 2016/680; DSAnpUG-

EU). The current Federal Data Protection Act will cease to have effect on 25 May 2018. The new BDSG adapts the data protection rules to the DS-GVO, utilises opening clauses contained in its text and implements Directive (EU) 2016/680 (directive governing the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data). The new BDSG creates sufficient legal certainty in order to now introduce concrete implementation steps in the individual companies of the Talanx Group together with the results of the project.

Compliance with applicable laws remains a requirement for the permanently successful operations of the companies of the Talanx Group. The companies pay close attention in particular to adhering to regulatory frameworks as well as to continuously adapting and further developing the business and its products to statutory reforms. The correspondingly installed mechanisms ensure that future legal developments and their effects on the companies’ own operations are identified and assessed early in order to make the necessary adjustments.

Business performance

Insurance business as a whole

EUR million	2017	2017	2016	2016
	Gross	Net	Gross	Net
Premiums	4,401	2,203	3,999	1,967
Premiums earned	4,302	2,157	3,963	1,937
Expenses for insurance claims	3,443	1,901	2,389	1,509
Expenses for insurance operations	877	527	773	431
Underwriting result for own account		-411		-56
In %				
Loss ratio*	80.0	88.2	60.3	77.9
Expense ratio**	20.4	24.4	19.5	22.3
Combined ratio***	100.4	112.6	79.8	100.2

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

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

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

HDI Global SE recorded an overall increase in gross written premiums of EUR 402 million to EUR 4,401 (3,999) million in the reporting period. As expected, the crucial factor for this development was an increase of EUR 230 million in premiums in the international business. In addition to satisfactory portfolio increases in the foreign markets, the transfer of a foreign subsidiary also contributed to the trend. Premium growth in the amount of EUR 172 million was also recorded in Germany. The acquisition of HDI Versicherung AG's fleet business also contributed to the positive premium trend in the motor insurance line.

Gross premiums for the financial year (total)

EUR million, %		
Liability insurance	1,297	29.5
All-risk insurance	1,229	27.9
Engineering insurance	455	10.3
Marine and aviation insurance	413	9.4
Motor insurance	462	10.5
Fire insurance	221	5.0
Casualty insurance	147	3.3
Other insurance	177	4.1
Total	4,401	100.0

Net premiums earned rose by EUR 220 million to EUR 2,157 (1,937) million. This increase can be attributed primarily to the gross premium trend.

Gross expenses on insurance claims for the year under review rose significantly by EUR 1,054 million to EUR 3,443 (2,389) million. The key driver was the massive increase in claims expenses in the all risk insurance line, which can be attributed to the heavy burden as a result of natural disasters and separate claims. Claims expenses for the financial year increased sharply by EUR 813 million to EUR 3,996 (3,183) million compared with the prior period. In addition, the run-off result decreased to EUR 553 (793) million. This decrease was seen in particular in the all risk insurance line and in liability insurance. The prior year was characterised in the industrial liability insurance line by the one-time-only remeasurement of provisions for claims for major losses incurred but not yet reported ("IBNR"), through which the gross and reinsurance reserves as well as provisions for reinstatement premiums were reduced nearly without any impact on profit or loss. The gross loss ratio climbed by 19.7 percentage points to 80.0% (60.3%).

Net expenses on insurance claims rose by EUR 392 million to EUR 1,901 (1,509) million. This was caused by the sharp rise in gross claims expenses for the financial year compared with the prior year, which were only partially compensated by reinsurance. Contrary to expectations, the net loss ratio rose by 10.3 percentage points to 88.2% (77.9%).

Gross expenses for insurance operations incurred rose by EUR 104 million to EUR 877 (773) million. At 20.4% (19.5%), the gross cost ratio clearly exceeded the prior year. The increase in costs resulted in particular from investments in projects and the growing international business. As expected, the net cost ratio rose to 24.4% (22.3%). The combined ratios reflected the development described above, amounting to 100.4% (79.8%) on a gross and to 112.6% (100.2%) on a net basis.

After allocating EUR 132 (48) million to the equalisation reserve, the underwriting result amounted to EUR -411 (-56) million due to high catastrophe losses.

Liability insurance

Direct written insurance business

EUR million	2017		2016	
	Gross	Net	Gross	Net
Premiums	923	500	866	542
Premiums earned	915	505	853	511
Expenses for insurance claims	573	393	403	349
Expenses for insurance operations	167	91	148	85
Underwriting result for own account		-12		-13
In %				
Loss ratio	62.6	77.9	47.2	68.2
Expense ratio	18.3	18.1	17.4	16.7
Combined ratio	80.9	96.0	64.6	84.9

Liability insurance mainly covers commercial general liability (CGL). In addition, the special lines, personal, pharmaceutical, planning, medical malpractice and nuclear facility liability insurance lines and pecuniary loss liability insurance for governing bodies as well as the US casualty business currently being liquidated are presented under this item.

Gross written premiums in the industrial liability insurance line increased by a total of EUR 57 million to EUR 923 (866) million in the financial year. A positive premium trend was observed in Germany within the corporate group. Premium growth in foreign markets was also positively influenced by the transfer of a subsidiary's portfolio.

Net earned premiums declined by EUR 6 million to EUR 505 (511) million. Net premiums in the prior year included a non-recurring effect due to the one-time-only decrease in expenses for reinstatement premiums in the amount of EUR 144 million in connection with the one-time-only remeasurement of provisions for claims for major losses incurred but not yet reported.

Gross expenses for claims incurred climbed significantly by EUR 170 million to EUR 573 (403) million. The crucial factor was, on the one hand, increased claims expenses for the financial year in the amount of EUR 722 (630) million, which was influenced by several major losses. In addition, the run-off result decreased to EUR 149 (228) million due to additions to reserves for individual major los-

ses. The gross loss ratio climbed accordingly by 15.4 percentage points to 62.6% (47.2%).

Net expenses for insurance claims rose by EUR 44 million to EUR 393 (349) million. The reason for this was, in particular, higher claims expenses for the financial year, which rose to a net amount of EUR 429 (311) million. The net loss ratio rose by 9.7 percentage points and was at 77.9% (68.2%).

Expenses for insurance operations amounted to EUR 167 (148) million on a gross basis and EUR 91 (85) million on a net basis. The increase in the cost ratio to a gross rate of 18.3% (17.4%) and a net rate of 18.1% (16.7%) can be attributed in particular to additional investments in projects. The combined ratio reflected the developments described above and was equal to 80.9% (64.6%) for the gross ratio and 96.0% (84.9%) for the net ratio.

After allocating EUR 33 (91) million to the equalisation reserve, the liability insurance line shows a net underwriting loss of EUR -12 (-13) million.

Fire insurance

Direct written insurance business

EUR million	2017	2017	2016	2016
	Gross	Net	Gross	Net
Premiums	194	87	180	80
Premiums earned	189	83	175	77
Expenses for insurance claims	116	49	302	129
Expenses for insurance operations	41	23	34	16
Underwriting result for own account		-27		-68
In %				
Loss ratio	61.5	58.9	172.4	166.8
Expense ratio	21.6	27.4	19.5	20.8
Combined ratio	83.1	86.3	191.9	187.6

Gross premium income from industrial fire and fire business interruption insurance increased in the financial year to EUR 194 (180) million. The increase in premiums could be largely attributed to restructuring activities in Germany during the financial year. Net premiums earned also increased due to the EUR 6 million increase in gross premiums and amounted to EUR 83 (77) million.

Gross expenses on insurance claims for the financial year declined considerably by EUR 186 million to EUR 116 (302) million. Claims expenses for the financial year fell by EUR 180 million and at EUR 166 (346) million remained clearly below the prior year's level despite a burden due to some major losses. The run-off result increased to EUR 50 (44) million. The gross loss ratio fell considerably by 110.9 percentage points to 61.5% (172.4%).

Net expenses on insurance claims declined by EUR 80 million to EUR 49 (129) million. The reason for this was clearly lower gross claims expenses for the financial year. The net loss ratio reflected a corresponding decrease by 107.9 percentage points to 58.9% (166.8%).

Gross expenses for insurance operations for the financial year just ended grew to EUR 41 (34) million. The primary driver was higher commission expenses in foreign markets. The gross expense ratio rose to 21.6% (19.5%). Expenses for the Company's own account rose to EUR 23 (16) million, resulting in a net expense ratio of 27.4% (20.8%). The combined ratios reflected the development

described above and decreased to 83.1% (191.9%) on a gross and to 86.3% (187.6%) on a net basis.

An underwriting result of EUR -27 (-68) million overall remained for the financial year after allocating EUR 28 million to the equalisation reserve (with a withdrawal of 6 EUR million from the equalisation reserve in the previous year).

Motor insurance

Direct written insurance business

EUR million	2017		2016	
	Gross	Net	Gross	Net
Premiums	436	418	348	310
Premiums earned	421	405	346	308
Expenses for insurance claims	349	340	290	264
Expenses for insurance operations	77	74	61	53
Underwriting result for own account		-17		-14
In %				
Loss ratio	82.9	84.1	83.7	85.7
Expense ratio	18.4	18.4	17.7	17.2
Combined ratio	101.3	102.5	101.4	102.9

Gross written premiums in the motor insurance line rose to EUR 436 (348) million in the financial year. Thus, the decrease in premiums in the previous year, which was characterised mainly by restructuring activities in Germany, did not continue in the year under review. Successes with new business, the acquisition of HDI Versicherung AG's fleet business and the transfers from a subsidiary's portfolio contributed significantly to growth. As a result, net premiums earned increased by EUR 97 million to EUR 405 (308) million, whereby the discontinuation of a quota share reinsurance policy also contributed to the development.

Gross expenses on insurance claims increased by EUR 59 million and were equal to EUR 349 (290) million. The larger portfolio in the financial year was essential for the development, which was also reflected in claims expenses for the financial year that increased significantly by EUR 57 million to EUR 382 (325) million. The run-off result decreased year-on-year by EUR 2 million to EUR 33 (35) million. Among other things, provisions for older personal injury claims had to be adjusted in the United Kingdom following a decision by the government in 2017, because a considerably lower discount rate is to be applied for these provisions. The gross loss ratio of 82.9% (83.7%) was lower than in the previous year.

Net expenses on insurance claims incurred rose to EUR 340 (264) million. The aforementioned discontinuance of the quota share reinsurance policy is responsible for the sharper rise in net expenses than in gross expenses. The net loss ratio fell to 84.1% (85.7%).

Gross expenses for insurance operations increased by EUR 16 million and were equal to EUR 77 (61) million. The gross expense ratio rose to 18.4% (17.7%), driven primarily by commissions. The net

expense ratio was 18.4% (17.2%). The combined ratio reflected the aforementioned developments, declining to 101.3% (101.4%) on a gross basis and to 102.5% (102.9%) on a net basis.

After allocating EUR 7 (5) million to the equalisation reserve, the overall underwriting result for the financial year was a net loss of EUR -17 (-14) million.

Marine and aviation insurance

Direct written insurance business

	2017	2017	2016	2016
EUR million	Gross	Net	Gross	Net
Premiums	305	221	285	205
Premiums earned	309	226	285	206
Expenses for insurance claims	198	163	250	187
Expenses for insurance operations	75	65	65	58
Underwriting result for own account		-23		-37
In %				
Loss ratio	64.0	71.9	87.6	91.0
Expense ratio	24.3	28.9	23.0	28.2
Combined ratio	88.3	100.8	110.6	119.2

Gross written premiums for marine and aviation insurance increased to EUR 305 (285) million in the financial year. The marine line posted a clear increase in premiums in the reporting period, which was realised in particular in Germany thanks to restructuring of the insurance concept for pharmaceutical companies and as a result of new business in travel insurance. The premium trend in foreign markets was characterised on the one hand by the sale of the renewal rights for the Norwegian blue water hull business on 1 January 2017 and on the other hand by the transfer of a subsidiary's premiums. The aviation line posted a slight decrease in premiums that can be attributed to the agreed withdrawal from the airline business in 2015 for which premiums were still recorded in the prior year.

Total gross expenses on insurance claims declined by a total of EUR 52 million to EUR 198 (250) million. Gross expenses in the aviation insurance line were reduced as a result of a financial year that went very well. The run-off result contributed to the positive performance with a profit of EUR 9 (12) million. Gross loss expenses in the marine insurance line fell by EUR 51 million to EUR 198 (249) million. This was due to lower claims expenses for the financial year in the amount of EUR 232 (252) million, which can be attributed to a positive loss experience in Germany. At EUR 33 (3) million, the run-off result, which was characterised by retroactive appropriations for several major losses in the prior year, likewise showed improvement. The gross loss ratio fell considerably overall by 23.6 percentage points to 64.0% (87.6%).

Net expenses on insurance claims declined by EUR 24 million to EUR 163 (187) million. The decrease in claims expenses for the financial year in the marine line followed the gross trend. Net claims expenses increased in the aviation line, because reinsurers took a

high share of the run-off result in the airline business. The net loss ratio fell overall to 71.9% (91.0%) due to the positive loss trend.

Gross expenses for insurance operations for the financial year just ended grew to EUR 75 (65) million. The expense ratios rose on a gross basis to 24.3% (23.0%) and on a net basis to 28.9% (28.2%). The combined ratio reflected the aforementioned developments and decreased overall on a gross basis to 88.3% (110.6%) as well as on a net basis to 100.8% (119.2%).

An underwriting result of EUR -23 (-37) million remained for the financial year after an allocation from the equalisation reserve in the amount of EUR 21 million (with a withdrawal of EUR 3 million in the previous year).

Engineering insurance

Direct written insurance business

EUR million	2017		2016	
	Gross	Net	Gross	Net
Premiums	282	151	273	141
Premiums earned	274	144	263	133
Expenses for insurance claims	191	91	176	84
Expenses for insurance operations	66	32	58	25
Underwriting result for own account		20		22
In %				
Loss ratio	69.8	63.6	66.9	62.8
Expense ratio	23.9	21.9	22.1	18.6
Combined ratio	93.7	85.5	89.0	81.4

The engineering insurance lines encompass insurance for machinery, installation, construction services, existing buildings', electronics and machinery warranties, as well as the respective associated business interruption insurances.

Gross written premiums in the engineering insurance line grew year-on-year to EUR 282 (273) million. This positive performance was generated primarily in foreign markets, whereas a decrease in premiums was recorded in Germany. Net premiums earned amounted to EUR 144 (133) million.

Gross expenses on insurance claims for the financial year rose by EUR 15 million to EUR 191 (176) million. Claims expenses for the financial year increased by EUR 36 million to EUR 217 (181) million, in particular due to a major loss in Germany and several losses in the offshore segment. In the same period, the engineering insurance line recorded a EUR 21 million year-on-year increase of EUR 26 (5) million in the run-off result. This run-off profit can be attributed to fewer claims incurred but not yet reported. The gross loss ratio rose by 2.9 percentage points to 69.8% (66.9%).

Net expenses on insurance claims increased to EUR 91 (84) million based on the gross trend, resulting in a 0.8 percentage point increase in the net loss ratio to 63.6% (62.8%).

Expenses for insurance operations rose to EUR 66 (58) million on a gross basis and to EUR 32 (25) million on a net basis. Due to an increase in commission and administrative expenses, resulting in particular in foreign branch offices, the cost ratio increased to 23.9% (22.1%) on a gross basis and to 21.9% (18.6%) on a net basis. The combined ratios reflected the developments described above and

were equal to 93.7% (89.0%) for the gross ratio and 85.5% (81.4%) for the net ratio.

Overall, a net underwriting profit of EUR 20 (22) million was reported for the engineering insurance line.

Casualty insurance

Direct written insurance business

	2017	2017	2016	2016
EUR million	Gross	Net	Gross	Net
Premiums	137	108	130	92
Premiums earned	134	105	129	92
Expenses for insurance claims	85	71	78	62
Expenses for insurance operations	30	26	28	22
Underwriting result for own account		6		5
In %				
Loss ratio	63.6	67.6	60.6	67.3
Expense ratio	22.7	24.4	22.1	23.6
Combined ratio	86.3	92.0	82.7	90.9

The casualty insurance line includes the general accident, motor accident, clinical trials and aviation accident insurance classes. By far the largest share of gross premium income is attributable to the general accident insurance class, which is, in turn, driven by group accident insurance.

In the financial year, the casualty insurance line achieved an increase in gross written premiums by EUR 7 million to EUR 137 (130) million. This positive performance was seen mainly in Germany, where growth was realised in the area of sports insurance. Net premiums earned rose by EUR 13 million – considerably sharper than on a gross basis – due to the non-proportional reinsurance structure and amounted to EUR 105 (92) million.

Gross expenses on insurance claims rose to EUR 85 (78) million. Higher claims expenses for the financial year in the amount of EUR 105 (95) million, which were the result, in particular, of higher claims expenses related to a key customer account, were responsible for this. Net income increased due to a higher run-off result of EUR 20 (17) million, which was seen in both Germany as well as in the international business. Overall, the gross loss ratio rose by 3.0 percentage points to 63.6% (60.6%).

Net expenses for insurance claims developed similar to the change on a gross basis and rose to EUR 71 (62) million. The net loss ratio climbed by 0.3 percentage points to 67.6% (67.3%).

Expenses for insurance operations rose to EUR 30 (28) million on a gross basis and EUR 26 (22) million on a net basis. The gross expense ratio of 22.7% (22.1%) exceeded the previous year's level. The net expense ratio increased slightly to 24.4% (23.6%). The

combined ratio reflected the development described above, increasing to 86.3% (82.7%) on a gross and to 92.0% (90.9%) on a net basis.

After allocating EUR 1 (1) million to the equalisation reserve, the overall net underwriting profit for the financial year was equal to EUR 6 (5) million.

All-risk insurance

Direct written insurance business

EUR million	2017	2017	2016	2016
	Gross	Net	Gross	Net
Premiums	544	142	499	115
Premiums earned	532	136	501	114
Expenses for insurance claims	355	176	263	107
Expenses for insurance operations	93	42	87	36
Underwriting result for own account		-86		-30
In %				
Loss ratio	66.7	129.5	52.5	94.3
Expense ratio	17.4	30.7	17.3	32.0
Combined ratio	84.1	160.2	69.8	126.3

combined ratios reflected the developments described above and were recorded at 84.1% (69.8%) for the gross ratio and 160.2% (126.3%) for the net ratio.

Overall, the all risk insurance line reported an underwriting result in the amount of EUR -86 (-30) million in the direct written business.

The all-risk business includes the insurance classes all-risk property insurance and all-risk business interruption insurance.

In the financial year, the all-risk insurance line achieved an increase in gross written premiums by EUR 45 million to EUR 544 (499) million. This development can be attributed mainly to business with new customers and restructuring activities. Net earned premiums rose by EUR 22 million to EUR 136 (114) million.

Gross expenses on insurance claims for the financial year rose by an appreciable EUR 92 million to EUR 355 (263) million. Claims expenses for the financial year, which increased year-on-year and amounted to EUR 438 (388) million, can be attributed to several major losses and was a crucial factor in this. In addition, the run-off result fell to EUR 83 (124) million. The gross loss ratio increased overall by 14.2 percentage points to 66.7% (52.5%) as a result of the loss trend.

Net expenses for insurance claims increased by EUR 69 million to EUR 176 (107) million based on the gross trend. In addition to the increase in claims expenses for the financial year (EUR +22 million), the run-off profit on a net basis decreased to EUR 5 (52) million due to the reinsurers' disproportionately high share of the run-off profit on a gross basis. The net loss ratio climbed by a significant 33.9 percentage points to 160.2% (126.3%).

Expenses for insurance operations increased in the financial year to EUR 93 (87) million on a gross basis and to EUR 42 (36) million on a net basis. The cost ratio increased slightly to 17.4% (17.3%) on a gross basis and decreased to 30.7% (32.0%) on a net basis. The

Other insurance

Direct written business

	2017	2017	2016	2016
EUR million	Gross	Net	Gross	Net
Premiums	171	95	162	89
Premiums earned	168	94	158	87
Expenses for insurance claims	107	59	71	45
Expenses for insurance operations	46	29	42	28
Underwriting result for own account		1		9
In %				
Loss ratio	63.5	62.3	45.2	51.3
Expense ratio	27.3	30.7	26.9	31.8
Combined ratio	90.8	93.0	72.1	83.1

Those insurance classes that, in light of their business volumes, are not required to be reported separately, are combined under other insurance. The most important aspects of this line of business relate to industrial risks in the extended coverage (EC) insurance classes. Furthermore, the multi-line and multi-risk products as well as the legal protection, crisis management and cyber classes that are available across all insurance lines, are included in the other insurance line.

On balance, gross written premiums in the other insurance line grew year-on-year to EUR 171 (162) million. A positive premium trend was observed in particular in the multi-risk and cyber insurance classes. Only the insurance class extended coverage had to record a decrease in premiums of EUR 4 million. Net premiums earned increased to EUR 94 (87) million. The crucial factor for this increase was on the one hand the premium growth on a gross basis and on the other hand a changed reinsurance structure in legal protection. In place of the excess of loss reinsurance there was a facultative reinsurance contract for exposed risks in the financial year.

Gross expenses on insurance claims climbed by a total of EUR 36 million to EUR 107 (71) million. Whereas claims expenses for the financial year in the amount of EUR 111 (107) million only slightly exceeded the previous year, the run-off result in the amount of EUR 4 (36) million remained clearly behind the previous year. The gross loss ratio rose by a total of 18.3 percentage points and was at 63.5% (45.2%).

Net expenses for insurance claims decreased less than gross expenses to EUR 59 (45) million. The net loss ratio rose overall to 62.3% (51.3%).

Gross expenses for insurance operations grew to EUR 46 (42) million. The gross expense ratio rose to 27.3% (26.9%). Net expenses for insurance operations rose by EUR 1 million to EUR 29 (28) million. The net expense ratio fell due to the share increase in premiums on a net basis to 30.7% (31.8%). The combined ratios reflected the developments described above and were equal to 90.8% (72.1%) for the gross ratio and 93.0% (83.1%) for the net ratio.

After an appropriation to the equalisation reserve in the amount of EUR 7 (4) million, an overall underwriting result of EUR 1 (9) million was recorded in the other insurance classes.

Business accepted for reinsurance

Total

	2017	2017	2016	2016
EUR million	Gross	Net	Gross	Net
Premiums	1,410	481	1,256	415
Premiums earned	1,358	459	1,253	408
Expenses for insurance claims	1,467	559	556	282
Expenses for insurance operations	281	145	248	108
Underwriting result for own account		-271		69
In %				
Loss ratio	108.0	121.8	44.4	69.1
Expense ratio	20.7	31.7	19.8	26.4
Combined ratio	128.7	153.5	64.2	95.5

The business accepted for reinsurance predominantly represents the share of foreign premiums from international insurance programmes for which HDI Global SE acts as the lead or sole underwriter for its customers in Germany and abroad. The ceding companies in these cases are foreign units of HDI Global SE and subsidiaries of the Talanx Group, that have written fronting policies in the respective countries in accordance with the specifications of HDI Global SE as well as the direct subsidiary HDI Global Network AG.

Other sources of our indirect insurance business are the reinsurance of captives of German and selected international key accounts as well as the central underwriting, in Hannover, of international risks of large foreign companies.

The gross premium income of the business accepted for reinsurance in the financial year was equal to EUR 1,410 (1,256) million. The major part of this total, or EUR 685 (633) million, was attributable to the all-risk insurance line (including business interruption), followed by liability at EUR 373 (350) million and engineering insurance lines at EUR 174 (118) million. The individual lines realised significant premium growth overall in comparison with the prior year as a result of the positive performance in the international business. Net premiums earned increased to EUR 459 (408) million.

Gross expenses on insurance claims for the financial year rose significantly by EUR 911 million to EUR 1,467 (556) million. Considerably higher claims expenses for the financial year in the amount of EUR 1,615 (845) million, which can be attributed to a high burden of claims from natural disasters and individual claims in the all-risk insurance line, was substantially responsible for this increase. In addition, the run-off result decreased to EUR 148 (288) million. The

gross loss ratio rose significantly by 63.6 percentage points to 108.0% (44.4%).

Net expenses for insurance claims increased by EUR 277 million and amounted to EUR 559 (282) million. This was caused by the sharp rise in gross claims expenses for the financial year compared with the prior year, which were only partially compensated by reinsurance. The net loss ratio rose considerably by 52.7 percentage points and was at 121.8% (69.1%).

Expenses for insurance operations rose by EUR 33 million to EUR 281 (248) million on a gross basis. This cost increase resulted in particular from the expanding business as well as investments in projects and systems. The gross expense ratio rose to 20.7% (19.8%). Net expenses were equal to EUR 145 (108) million. The net expense ratio rose by 5.3 percentage points to 31.7% (26.4%). The combined ratios reflected the developments described above and were equal to 128.7% (64.2%) for the gross ratio and 153.5% (95.5%) for the net ratio.

In total, the business accepted for reinsurance showed a net underwriting result of EUR -271 (69) million. This includes an allocation to the equalisation reserve in the amount of EUR 36 million (with a withdrawal of EUR 44 million in the prior year).

All-risk insurance

	2017		2016	
EUR million	Gross	Net	Gross	Net
Premiums	685	175	633	178
Premiums earned	661	166	631	180
Expenses for insurance claims	1,104	371	227	99
Expenses for insurance operations	125	49	117	45
Underwriting result for own account		-249		42
In %				
Loss ratio	167.1	223.4	36.0	54.9
Expense ratio	19.0	29.7	18.6	24.9
Combined ratio	186.1	253.1	54.6	79.8

Liability insurance

	2017		2016	
EUR million	Gross	Net	Gross	Net
Premiums	373	149	350	147
Premiums earned	367	148	343	137
Expenses for insurance claims	181	89	148	128
Expenses for insurance operations	72	48	65	35
Underwriting result for own account		-15		-11
In %				
Loss ratio	49.4	60.3	43.2	92.8
Expense ratio	19.6	32.4	19.0	25.7
Combined ratio	69.0	92.7	62.2	118.5

Engineering insurance

	2017		2016	
EUR million	Gross	Net	Gross	Net
Premiums	174	61	118	36
Premiums earned	156	52	125	37
Expenses for insurance claims	122	50	94	19
Expenses for insurance operations	42	15	30	10
Underwriting result for own account		-13		6
In %				
Loss ratio	78.4	96.8	75.7	52.0
Expense ratio	27.0	28.3	24.3	27.9
Combined ratio	105.4	125.1	100.0	79.9

Branch office report

Branches as representative offices of HDI Global SE in foreign markets

HDI Global SE maintains branches in the most important foreign target markets in order to offer international customers a direct presence. HDI Global SE thereby develops additional growth opportunities outside of the domestic German market both in new markets as well as in new customer segments. The foreign branches represent a central component of HDI Global SE's strategy in foreign markets.

Branches of HDI Global SE

	2017		2016	
EUR million, number	Gross prem.	Employees*	Gross prem.	Employees*
Germany, Hannover	2,410	1,814	2,238	1,810
France, Paris	361	118	320	110
The Netherlands, Rotterdam	287	273	164	141
United Kingdom, London	252	98	239	94
Switzerland, Zurich	214	100	220	93
Belgium, Brussels	203	88	191	85
Spain, Madrid	144	93	142	94
Italy, Milan	137	74	126	67
Australia, Sydney	89	48	63	43
China, Hong Kong	71	28	63	27
Japan, Tokyo	62	27	52	28
Denmark, Copenhagen	42	28	33	24
Canada, Toronto	42	19	35	16
Greece, Athens	27	20	27	20
Singapore	24	16	26	17
Bahrain, Manama	18	11	17	9
Ireland, Dublin	13	6	11	5
Norway, Oslo	3	2	31	18
Malaysia, Labuan	2	0	1	0
Total	4,401	2,863	3,999	2,701

*Active core employees as at the reporting date.

Key processes in individual branches

HDI Global SE continued to expand its regional offices in foreign markets, thereby strengthening the position of the existing branches by getting closer to the customers and relevant business centres.

Following this strategy, the offices in Bern (Swiss branch) and Lille (French branch) opened for business in the financial year just ended.

The sale of the renewal rights to the blue water hull business by the branch in Norway (Oslo) was implemented and the transfer was completed as planned.

Significant changes in the gross premiums of individual branches

Gross premiums in the Dutch branch increased by EUR 123 million to EUR 287 (164) million. In 2017, the last significant portfolio transfer from HDI-Gerling Verzekeringen N.V. was carried out in connection with a strategic reorientation that led to substantial in-payments of premiums in the marine insurance, fire insurance, liability insurance and motor insurance lines in the branch.

Gross premiums in the French branch increased by EUR 41 million to EUR 361 (320) million. The French branch posted premium growth in the all-risk insurance line from existing customer relationships. This branch also benefited from the canvassing of new, individual key customers in the liability insurance line.

Gross premiums in the Norwegian branch decreased by EUR 28 million to EUR 3 (31) million in the marine insurance line as a result of the aforementioned sale of a blue water hull portfolio. The portfolio in the Norwegian branch is currently being liquidated.

Non-insurance business

Investment result

Current-year investment income for the reporting period, which was mainly attributable to coupon payments on fixed interest securities was equal to EUR 266 (273) million. This compares to current-year expenses in the amount of EUR 15 (15) million. The current result amounted to EUR 251 (258) million. The sustained, low interest rate level – in particular in the eurozone – led to further decreases in income from fixed-income securities, since portfolio optimisations could not offer adequate compensation taking an appropriate amount of risk into account. Net income from real estate and other investments in financial year 2017 slightly exceeded the prior year's result. The special bond fund, EuroRent 3, HDI Global SE's largest special fund, distributed ordinary and extraordinary income in the financial year just ended as well as retained profits brought forward from prior years.

The average rate of return* was 3.8% (3.9%).

Net realised gains on the disposal of investments for the year under review were equal to EUR 30 (8) million. The profits in the amount of EUR 32 (11) million were offset by losses from the disposal of fixed-income securities in the amount of EUR 2 (3) million.

The cumulative balance of write-downs and reversals thereof amounts to EUR -13 (-1) million.

Overall, an extraordinary result in the amount of EUR 17 (7) million contributed to the increase in net income.

The balance sheet result from investments amounted to a total of EUR 268 (265) million and therefore exceeded the expectations. The total net return** for the reporting period reached 4.0% (4.0%).

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

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

Other income/other expenses

The result from other income/other expenses in the financial year was EUR -23 (-42) million. The change was caused primarily by income from the derecognition of liabilities in the amount of EUR 62 (4) million, offset among other things by expenses from write-downs on receivables in the amount of EUR 30 (7) million and interest allocated to pension provisions in the amount of EUR 27 (12) million. The net balance of exchange rate gains and losses for the financial year was a net gain of EUR 1 (a net loss of -2) million.

Extraordinary result

The extraordinary result of EUR -3 (-54) million mainly reflects the full funding of provisions for pensions in accordance with the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz; BilMoG).

Comprehensive income of HDI Global SE

	2017	2016
EUR million		
Underwriting result for own account	-411	-56
Total investment income (incl. underwriting interest income)	267	265
Result from other income/other expenses	-23	-42
Result from ordinary activities	-167	167
Extraordinary result	-3	-54
Taxes	34	45
Loss (-)/profit transferred to Talanx AG	-204	68

Contrary to expectations, it was necessary for HDI Global SE's parent company Talanx AG to assume its losses in the amount of EUR 204 million based on the existing profit-and-loss-transfer agreement in the financial year (prior year: transfer of net income in the amount of EUR 68 million).

Net assets and financial position

Investments

The volume of investments (excluding deposits retained) of HDI Global SE at the end of the year amounted to EUR 6,576 (6,592) million and therefore remained nearly unchanged from the previous year.

Fixed-interest investments (loans to affiliated companies, loans to long-term investees and investors, bearer bonds and other fixed-interest securities, loans guaranteed by mortgages, land charges and annuity land charges, registered bonds and notes receivable and loans) that are held directly in a portfolio, had a total volume of EUR 3,547 (3,846) million at the end of the year, which corresponded to a share of 53.9% (58.1%) of the total investments. Additional significant investment categories included bond funds at 18.1% (16.5%) as well as long-term equity investments and investments in affiliated companies at 17.7% (17.1%). Investments in fixed-income securities included in particular bearer bonds with good credit ratings. The quality of the fixed-income securities remained at the solid level strived for with an average rating of A (A) compared with the prior year. The portfolio of bond funds was increased to EUR 1,191 (1,090) million through the reinvestment of a distribution from the special bond fund EuroRent 3 as well as investments in additional bond funds.

The real estate portfolio increased by EUR 41 million to EUR 166 (125) million, in particular due to the purchase of new properties.

The carrying amounts of investments in affiliated companies and long-term equity investments increased in the reporting period and amounted to EUR 1,162 (1,126) million at the end of the year. The carrying amounts of the investees HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne, and HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne, increased by a total of EUR 47 million to EUR 615 (568) million as a result of the successive capitalisation on the part of HDI Global SE. The investments in private equity, infrastructure and indirect properties, which also represent a focus of the investments, are managed in particular over these companies. In addition to this development of the investment fund vehicle, investments were also made in particular in our foreign units.

The fixed-term deposit portfolio increased at the end of the year by EUR 68 million to EUR 150 (82) million. This increase was based, among other things, on the investment of portfolios at foreign units required under supervisory laws.

The currency effect resulting from the translation of the portfolios maintained in foreign currencies on 1 January of the financial year led to a reduction of the investment portfolio by EUR 158 million (prior year: increase of EUR 23 million). In addition, the portfolios decreased by EUR -5 (-5) million in the financial year as a result of exchange rate fluctuations.

The market value of the investments as at the balance sheet date was equal to EUR 7,160 (7,156) million. The increase resulted from the portfolio and market trend.

Equity (fully paid in)

The Company's capital stock still amounts to EUR 125 million. It is divided into 125,000 registered shares with no par value.

Subordinated liabilities

The subordinated liabilities relate solely to subordinated loans that specify a fixed-interest period lasting until 12 August 2021 with a coupon of 4.25%. After this date, the variable interest rate will be calculated based on the three-month Euribor plus a margin of 7.17%. The subordinated loans cannot be terminated early by the borrower until 12 August 2021 at the earliest.

Underwriting provisions

Underwriting provisions rose by EUR 372 million to EUR 6,370 (5,998) million. This line item primarily includes provisions for unsettled insurance claims in the amount of EUR 5,103 (4,886) million.

Our Company operates on an international scale and therefore recognises underwriting liabilities in foreign currencies. The currency effect resulting from the translation of the investment portfolios maintained in foreign currencies on 1 January of the financial year at the rate prevailing on the reporting date led to a decrease of EUR 270 million in loss provisions (prior year: increase of EUR 25 million).

The movement of underwriting equity and liability items denominated in foreign currencies are covered by matched foreign currency items on the asset side on an ongoing basis.

Financial position

The Company realises incoming cash flows from ongoing premium income, investment income and the return flows from investments of capital. According to the current liquidity planning, which covers projected changes in liquidity for the coming twelve months, the cash flows required to meet current payment obligations is assured.

In addition, a profit-and-loss transfer agreement is in effect with Talanx AG.

Other balance sheet items

The composition of the above, as well as other line items on the balance sheet, is set out in the notes to these financial statements.

Overall assessment of the economic position

HDI Global SE considers the business trend in the year under review to be difficult, also in view of the environment. The underwriting result was burdened by major losses that significantly exceeded the expectations. In particular, the hurricanes "Harvey", "Irma" and "Maria" as well as the earthquake in Mexico left their mark. Positive developments in various lines were unable to compensate the clear losses in the all-risk insurance line. The consequence is the systematic expansion of restructuring activities in this line. In contrast, net investment income made a noticeably positive contribution to net income despite the sustained phase of low interest rates. Nevertheless, the business performance can be considered unsatisfactory on the whole as a result of the unusually high burden of major losses. HDI Global SE's economic position remained unchanged at the time in which the management report was prepared.

Personnel and social report

Overview

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

Company employee training

HDI Global SE has conducted trainee programmes for the past several years through which the participants receive a basic qualification as the underwriter of an insurance line, i.e. third-party liability, motor, marine, engineering insurance or property insurance. The trainees that go through this one-year training are deployed as needed to branches all over Germany. The trainee programme is subdivided into various portions that focus on training in special areas and methods and are each completed with a period of practical training.

In order to locate and identify talented individuals and ensure their loyalty and commitment to the Company, HDI Global SE continues to focus on the development of its own young professionals by means of classic initial vocational training as insurance and finance specialists (Kaufleute für Versicherungen und Finanzen) (back office) or as part of a Dual Studies programme for Insurance/Management/Actuarial Studies (B.A. Versicherungswirtschaft) or a Bachelor of Science with a specialisation in Business Information Systems (B.Sc. Wirtschaftsinformatik).

Personnel marketing

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

among other things, at events, job fairs or through collaborations with selected universities.

Personnel development

Employees of HDI Global SE and of the entire Talanx Group can expand or augment their expertise in potential, area and management development programmes in order to prepare themselves to take on functions with more responsibility. In orientation programmes, they subsequently receive support to establish themselves in the newly assumed responsibilities. The programmes continue to be very important for the development and loyalty of talented individuals.

Many account managers, sales brokers and underwriters let an advanced training account be opened for them at the education initiative of the German insurance industry, "gut beraten" (German for well-advised). They participate in particular in further technical and sales-oriented training for which they receive credit points for further training in the database of the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft e.V; GDV).

Personnel deployment

The mobility of our employees remained very important also in 2017. During long-term deployments, our specialists and managers make an important contribution to expanding our global business by undertaking key tasks in foreign markets. In addition, employees at headquarters completed multi-month deployments ("shadowing") at a foreign branch in the past financial year in order to further intensify the international collaboration and obtain new skills and experience.

International projects for the strategic further development of HDI Global SE enable our employees at foreign branches to work at headquarters in Hannover for a period of time and to gather international experience. The deployment guidelines adopted by the Group's Board of Management ensure both an optimal structure for foreign deployments as well as the consideration of the individual needs of the employee.

Remuneration

HDI Global SE offers its employees attractive remuneration models. Remuneration for senior executives currently comprises a fixed and variable, performance-based component. The weighting between these components is derived based on the level of responsibility and function associated with the respective position, which is determined based on a standard job evaluation system throughout the Company. The amount of variable remuneration is determined by the achievement of personal goals as well as goals set by the Talanx

Group and the division. Special payments, which will be made more flexible in the future, are granted to non-executive employees as an incentive for exceptional performance. Beginning with financial year 2018, so-called Spot-on Awards will be awarded and paid out quarterly over the course of the year.

Key employee indicators

In the reporting year, the annual headcount for HDI Global SE was 2,871 (2,679) employees. The average age of the employees was 44.7 (44.5) years, while the length of service was 16.1 (16.0) years. The part-time employment ratio was 14.7% (14.2%).

The Board of Management of HDI Global SE would like to express its thanks to all of the employees for their personal commitment and contribution to the success of the Company. The Board would also like to thank all social partners for their constructive collaboration.

Non-financial statement

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

Corporate governance declaration in accordance with section 289f HGB

In accordance with the German Act to Promote Equal Participation of Women and Men in Management Positions in the Private and Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern in der Privatwirtschaft und im öffentlichen Dienst, FührungsGleichberG), the Supervisory Board of HDI Global SE was obligated to specify the quota of women aimed for in the Company's Supervisory Board and in the Board of Management in the period ending 30 June 2017. For that period, the Supervisory Board had specified a target of 16.7% for the proportion of women in the Supervisory Board and 0.0% for the Board of Management. As of 30 June 2017, the target for the Supervisory Board had been reached and the target for the Board of Management was not exceeded.

Furthermore, the Board of Management was obligated under the aforementioned law to specify the targets for the proportion of women in the two management levels below the Company's Board of Management in the period ending 30 June 2017. For the first management level, a target of 12.0% was resolved for the proportion of women, while in the second management level a target of 10.9% was resolved. As of 30 June 2017, the proportion of women was 8.7% in the first management level and 12.5% in the second management level. The target for the first management level was not reached due to internal restructuring and rotation/fluctuation. The target for the second management level was exceeded.

30 June 2022 was set as the new deadline for the targets for the proportion of women in the Supervisory Board, Board of Management and in the Company's first two management levels. The Supervisory Board resolved to specify a target of 16.7% again for the proportion of women in the Company's Supervisory Board and 14.3% in the Board of Management – however, without prejudice for potential contrary decisions based on the situation in due course. The Board of Management resolved a target of 15.0% respectively for the first and second management levels for the same period.

The paragraphs entitled "Non-financial statement" and "Corporate governance declaration in accordance with section 289f HGB" are expressly exempted under section 317(2) sentence 6 and/or sentence 4 HGB from being examined in connection with the audit of the annual financial statements and/or of the management report.

Risk report

Risk controlling in a time of change

HDI Global SE offers their policyholders comprehensive insurance protection so that the assumption of risks represents the core of its business. Pronounced risk awareness is an indispensable prerequisite for managing these risks. In this context, the Company developed a variety of processes and instruments some time ago, that are used not only to recognise, assess and manage risk but also to identify opportunities. The Company's risk management is focused on the negative random variations, that are risks.

HDI Global SE uses an internal model to calculate the risk capital for regulatory purposes (whereby operational risk is calculated with a standardised formula). The time horizon considered in the model is one calendar year.

The monitoring systems and decision-making processes of HDI Global SE are embedded in the standards of the Talanx Group.

Structural organisation of risk management

The structural and organisational framework for the Company's risk management has been set out using a role concept that defines and delimits the tasks, rights and responsibilities. In addition, risk management and risk monitoring functions are separated under the segregation of functions.

The Company's Board of Management is responsible for the introduction and continued development of the risk management system as well as the risk strategy. It is assisted by the Risk Committee. The major tasks of the Risk Committee include, for example, the coordination of risk control measures, the analysis of risk positions, with particular regard to the risk strategy adopted by the Board of Management as well as the regular reporting of risk positions.

The roles of the Head of Risk Management include, inter alia, the coordination of activities of the independent Risk Controlling function.

The activities of the independent Risk Controlling function are mainly focused on the identification and assessment of risks at the aggregate level, including the validation of the risk assessments made by the risk management officers. The preparations for risk reporting, including statements about the utilisation of existing limits and thresholds as well as the regular quantitative analysis of risk bearing capacities also fall within the scope of its responsibilities.

The risk management system is regularly reviewed by Talanx AG's Internal Auditing department.

Risk controlling process

Based on the Company's risk strategy targets, which are consistent with those of Talanx AG, as well as the objectives of its own business strategy, the Company's risk-bearing capacity is regularly reviewed and reported to the Board of Management throughout the year. These quantitative observations are put into operation in connection with a consistent limit and threshold value system at the enterprise level. The utilisation of limits is regularly monitored. Concentration risk is accommodated, among other things, by means of appropriate limits and threshold values.

Within the framework of the qualitative risk control process, HDI Global SE focuses on significant risks. As a general rule, the single risks named by the risk management officers are aggregated into a report on risks and opportunities attached to future developments. The risk meetings, which are regularly held by the divisions and the corporate functions, rely on systems-supported risk identification.

The findings from the qualitative and quantitative analyses of the risk position provide the foundation for an internal risk report that is regularly prepared by HDI Global SE. This ensures that an overview of the Company's risk situation can be provided at all times. The risk categories required under Solvency II are fully covered by HDI Global SE. This enables them to be mapped to the risk categories in the German Accounting Standard GAS 20, which are discussed in the following.

Underwriting risks

Underwriting risks derive primarily from the premium/loss risk and the reserving risk.

In the property/casualty insurance line the premium/loss risk refers to the risk of having to pay future indemnification from insurance premiums that have been fixed in advance, but that, due to their limited predictability, are not known with certainty when premiums are set (risk of random loss and change). To limit this risk, HDI Global SE uses actuarial models, in particular for the setting of rates, monitors the claims experience on a regular basis and obtains reinsurance coverage.

The reserving risk refers to the risk that the underwriting provisions will not be sufficient to settle all unsettled and unreported claims in full. The level of reserves is regularly reviewed on a period-by-period basis and the run-off results are monitored in order to lower this

risk. In addition, a provision (Spätschadenrückstellung) is recognised for losses presumed to have occurred but not yet reported.

The following table shows the development of the loss ratio for own account:

Loss ratio for own account

Claims expenses as percentage of premium earned	
2017	88.2
2016	77.9
2015	79.1
2014	83.3
2013	85.7
2012	79.3
2011	97.2
2010	75.2
2009	79.5
2008	68.3

HDI Global SE seeks, in particular, to mitigate the potential effect of a simultaneous occurrence of natural disasters and accumulation losses within the context of underwriting risk by obtaining adequate reinsurance cover on behalf of the Company for peak claims. In addition, it uses loss analyses, natural disaster models, selective underwriting and regular monitoring of the claims experience to control and reduce risk.

The following table shows the development of the run-off ratio for own account:

Run-off result

Run-off result of the initial loss provision in %	
2017	6.3
2016	5.6
2015	9.0
2014	11.4
2013	10.7
2012	7.9
2011	7.7
2010	7.7
2009	4.5
2008	8.1

Risks of default on insurance business receivables

HDI Global SE reduces the risk of default on receivables from reinsurers by means of instructions and guidelines that apply to the entire segment. The reinsurance partners are carefully selected by expert committees and their creditworthiness is reviewed on an ongoing basis. The consistent and uniform utilisation of rating information applicable at the respective cut-off date is ensured by means of a rating information system accessible Group-wide. In order to avoid and/or limit default risks from the reinsurance business, appropriate measures are taken to collateralise receivables and/or other contractual obligations on the part of these reinsurance partners. Amounts contractually ceded to reinsurers are managed in particular by the Group's own reinsurance broker by way of operational hedging and placement guidelines.

The default risk from claims due from policy holders and insurance agents is accounted for in the form of general allowances for doubtful debt. Agents are also evaluated in terms of their credit worthiness. In particular a strict reminder and dunning process is carried out to counter potential delays or defaults on premium payments in collections directly from policyholders or from intermediaries and the development of outstanding receivables with respect to amount and age is closely followed.

In the direct written insurance business outstanding receivables due from policy holders and insurance agents that were more than 90 days in arrears as at the balance sheet date totalled EUR 461.1 million. This represents 61.0% of gross receivables. Over the past three years, HDI Global SE was required to write-off an average of 0.8% (0.8%) of receivables on reinsurance business as at the balance sheet date.

The receivables from reinsurers based on rating classes are presented as follows as at the reporting date:

Receivables from reinsurers based on rating classes

EUR million, %		
≥ AA	239.1	35.7
A	273.2	40.8
BBB	0.8	0.1
< BBB-	0.0	0.0
NON	157.0	23.4
<i>of which captives</i>	<i>46.8</i>	
Total	670.1	100.0

Investment risks

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

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

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

Credit risk is managed by means of a system of rating classes under the special investment guidelines. Credit risk related to mortgages and land charges as well as real properties is limited under the special investment guidelines. Liquidity and concentration risk is taken into account through adequate fungibility and diversification of investments.

If derivative transactions are effected for the purpose of increasing income, to prepare acquisitions and hedge portfolios as well as transactions with structured products, they are entered into in accordance with the Company's internal guidelines.

Derivatives positions and transactions are shown in detail in the reporting. On the one hand, derivatives are efficient and flexible instruments of portfolio management. On the other hand, the use of derivatives is associated with additional risks such as basis risk,

curve risk and spread risk, which are monitored in detail and systematically managed. Currently, derivatives are employed in the vast majority of cases for hedging purposes. The risk associated with the employed derivatives is adequately taken into account in the risk controlling.

Risk management objectives

The aim of risk management is to ensure that the investment targets give appropriate consideration to safety, profitability and liquidity while maintaining an appropriate asset allocation and diversification. The intent is to consider the overall-risk situation of the Company. This is characterised, in particular, by the underwriting obligations assumed, the existing structure of investments, own funds and other financial reserves of the Company.

The results of liquidity planning and controlling performed throughout the year are incorporated into the risk management and are taken into account in terms of the time horizon.

Management of the investment portfolio

Investments are subject to detailed guidelines and adherence is continuously monitored, as is compliance with the supervisory provisions. These investment guidelines are designed to serve as framework for the investment strategy, taking into account the operating insurance business and the time horizon, and as evidence vis-à-vis outside parties (BaFin, independent auditors, etc.). The monitoring of the ratios and limits specified in these guidelines is incumbent on Risk Controlling and on the Chief Financial Officer. All material changes to the investment guidelines including appendices and/or investment policies must be approved by the full Management Board of the Group and reported to the Supervisory Board.

Risk measurement and control

The risk associated with the bond portfolio is monitored by determining the interest rate risk on the basis of scenario analyses. Compliance with the limits established by the Chief Financial Officer with respect to the duration of the bond portfolio is also controlled. To monitor changes in the market values of interest-rate sensitive products, the convexity limits of bond products are further tracked on a daily basis. In connection with listed shares, Risk Controlling determines the risk associated with equity instruments on the basis of scenario analyses and stress tests, which are performed at least monthly in compliance with the supervisory regulations.

Fair value development scenarios for securities

Portfolio changes based on market value (EUR million)	
Portfolio	
Equities and other non-fixed interest securities	
Share prices -20%	-61.2
Fixed-interest securities and other loans	
Rise in yield +100 basis points	-218.1
Decline in yield -100 basis points	+224.1

In connection with the exchange rate risk, cover in matching currencies is monitored. In addition exposures are controlled with respect to the additional limits by currency set by the Chief Financial Officer.

The default risks to be monitored comprise counterparty and issuer risk. Counterparty and issuer risk is controlled on the basis of counterparty lists issued by the Chief Financial Officer as well as by monitoring the limits that are defined for each rating class.

EUR million, %		
Bearer bonds		
Rating AAA	946	38.5
Rating AA	485	19.8
Rating A	709	28.9
Rating BBB	302	12.3
Rating < BBB	13	0.5
Total	2,455	100.0
Registered bonds/ Promissory note loans		
Rating AAA	486	52.2
Rating AA	149	16.0
Rating A	170	18.2
Rating BBB	92	9.9
n. r.	35	3.7
Total	932	100.0
Fixed income funds		
Rating AAA	131	12.6
Rating AA	38	3.7
Rating A	233	22.4
Rating BBB	525	50.4
Rating < BBB	114	10.9
Total	1,041	100.0
Loans		
Rating AA	36	13.3
Rating A	103	38.2
Rating BBB	84	31.1
Rating < BBB	4	1.5
n. r.	43	15.9
Total	270	100.0
Total		
Rating AAA	1,563	33.3
Rating AA	708	15.1
Rating A	1,215	25.9
Rating BBB	1,003	21.3
Rating < BBB	131	2.8
n. r.	78	1.6
Total	4,698	100.0

As a result of the persistently low interest rate level, there is an elevated rollover risk associated with fixed-interest securities. The capacities on the market for attractive new investments are correspondingly limited.

Liquidity risk refers to the risk of not being able to meet financial obligations, in particular under insurance contracts, if investments are illiquid. The risk is taken into account through adequate fungibility and diversification of investments. The Company ensures sufficient liquidity at all times through the coordination between the investment portfolio and insurance obligations as well as the planning of its cash flows.

Key liquidity indicators are reviewed and reported quarterly to monitor liquidity risk. Compliance with the minimum and maximum limits set by the Chief Financial Officer is tested in connection with the liquidity reserve.

Any risk limit excesses are immediately reported to the Chief Financial Officer and to Portfolio Management.

Operational risks

Operational risks include operating and legal risks. Within the internal risk categories, these risks can be classified under the following sub-groups of operational risk: IT, process, legal and other operational risks.

A failure of EDP systems is considered a typical IT risk. This risk is limited, among other things, by means of a backup computer centre made available by Talanx Systeme AG under a service level agreement as well as by contingency plans.

Process risk is mitigated by the internal management and control system. Based on structured process documentation, material risks and controls are identified, and assessed in a risk/control assessment and action items are formulated where necessary. In a specific case, this might mean that existing controls are adapted and/or that new/additional improvements and measures are initiated by the risk management officers.

Legal risk may arise from contractual agreements or the general legal framework. In organisational terms, the handling of these issues is supported by appropriate organisational and operational arrangements, such as the division of competences between the functional departments at HDI Global SE and the corporate legal department at Talanx AG.

At the EU membership referendum on 23 June 2016, a majority of the voters voted for the exit of the United Kingdom from the EU (so-called Brexit). The exit negotiations between the UK and the EU remain tough, complex and uncertain with respect to their outcome. Neither side expects any clear progress in the next rounds. There are still extremely divergent opinions on settling the “bill” upon leaving the EU. HDI Global SE is currently represented by a legally independent EU branch in the British market; the effects on the organisation of the local unit as well as on the business carried out by this unit are still being reviewed as part of a project set up for this purpose.

In December 2017, a comprehensive tax reform bill was passed in the USA that provides for new tax rules that also have a significant

financial effect on the subsidiaries of HDI Global SE active in the USA. A crucial aspect of this tax reform is the introduction of a “base erosion and anti-abuse tax” (BEAT) provision. As a result, premiums for insurance risks ceded within the Group also flow into the measurement basis for tax purposes. The effects on the subsidiaries active in the USA are currently being analysed with respect to the relevant topics.

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

Other risks

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

Overall summary of the risk position

On balance, there are presently no known risks that could jeopardise the continued existence of HDI Global SE. The Company fulfils the solvency requirements. We publish the specific ratios in May 2018 in the report on the Solvency and Financial Condition Report (SFCR) as at 31 December 2017.

Report on expected developments and on opportunities

Economic climate

For 2018, we expect a continuation of global growth, which should again accelerate slightly compared with the previous year. Both industrial nations as well as emerging markets will likely expand slightly over the level of 2017. We consider global trade, a sustained dynamic consumer trend and rising inflation growth to be central drivers of growth.

There are signs in the eurozone that the robust growth in 2017 will continue in 2018. In addition to a dynamic labour market trend – and therefore a dynamic income and consumer trend – rising investment growth and strong net exports are providing for an extremely positive picture. Political uncertainty could also impair the growth outlook in this year – the parliamentary elections in Italy and the course of the Brexit negotiations are likely to be key risks. However, the outlook for the eurozone remains positive overall.

The USA remains on a stable growth trajectory and should further accelerate its growth cycle in 2018. Growth drivers include, among other things, the consumer trend and investment activity. The implementation of the US tax reform and reconstruction activities following the devastating hurricanes in the third quarter of 2017 are providing additional stimulus for growth.

Emerging markets especially benefit from the acceleration of global growth due to their frequently very export-oriented growth models. Thanks to the recovery of commodity prices, the positive foreign trade environment and the consumer trend, we expect stronger growth for emerging markets in 2018. Nevertheless, risks remain: In particular, the transformation of the Chinese economy from an export and investment-oriented growth model to a modern service society in combination with structural problems – such as the high level of debt in the private sector – will likely continue to have a negative impact in 2018. We assume there will be a gradual weakening of growth in China.

Strong commodity price momentum should lead to a considerable rise in the rate of inflation in the first half of the year. However, the increasing utilisation of global production capacities in the context of the acceleration of global growth should provide for a gradual rise in core inflation, i.e. the rate of inflation excluding energy and food prices. We expect a cautious normalisation of monetary policies around the world. The ECB is expected to end its purchasing

programme this year. The US central bank sees itself confronted with a clearly more mature business cycle and is accordingly likely to tighten its monetary policy more quickly.

Capital markets

We expect sufficient demand for loan products, also with the support of the purchasing programme that the ECB is continuing at a lower level. However, the sensitivity towards spread widening and/or towards greater spread volatility should increase.

The valuation level of the European and American stock markets rose significantly in the year under review, therefore, the price potential is limited. In particular in the USA, we see that the upward potential is already largely exhausted. In contrast, profit margins and returns on equity in Europe are comparatively low, therefore we expect a backlog of demand if the economy in Europe further improves. We remain optimistic with respect to the stock market trend and consider the positive economic environment to be a key driver of prices thanks to rising corporate profits. However, political uncertainties, geopolitical conflicts and the increasing normalisation of monetary policies around the world could lead to greater market volatility.

International insurance markets

In international property and casualty insurance, we expect low real premium income growth overall for 2018. For emerging markets, we are basing our planning on an assumption of constant growth momentum, whereas it can be assumed that real premium growth will slow down somewhat in developed markets. Profitability should improve slightly overall in 2018. This assessment reflects on the one hand the merely moderate macroeconomic improvements to be expected and potentially rising inflation and on the other hand the rate increases to be expected as a consequence of the losses from natural disasters in the USA and Latin America.

For the eurozone, we expect slightly increasing premium income for 2018, whereas the trend in the USA is expected to decrease slightly. In Central and Eastern Europe – with the exception of Russia – the slow economic recovery should continue and as a result premium growth for 2018 should also remain at a comparable level as in the year under review. For Latin America, we anticipate premium growth to slowly improve in 2018 after restrained growth in 2017. Positive impulses here could come in particular from the corporate customer business in Brazil. The solid premium growth in Asian emerging markets will likely continue also in 2018. Regulatory initiatives, for example, such as support for liability insurance in China, a new crop insurance system in India or the acceleration of infrastructure investments in Southeast Asia could be beneficial.

In Central and Eastern Europe, we assume the premium volume will decline overall, reflecting in particular the trend in Russia. In other countries in the region, the increases in premiums are likely to be higher given the sustained economic recovery. For Latin America in 2018, we expect increasing premium growth, supported by moderate economic improvement in Brazil and positive stimulus from income tax amendments in Mexico. In Asia, we expect the trend in premium growth to remain robust, dominated by China.

German insurance industry

Despite the positive trend in the prior year, the economic environment continues to be characterised by economic risk factors. As such, forecasts are generally subject to reservations. Assuming that the general economic environment does not significantly deteriorate, the insurance industry should achieve a slightly increasing premium volume in 2018 compared to the prior year according to an assessment by the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft e.V.; GDV).

In property/casualty insurance, we anticipate rising premium income in Germany for 2018. Premium growth should fluctuate around the level of the year under review. The increases in premiums in the motor insurance line, which were already a primary driver of the positive premium trend over the past few years, and the increases in private property insurance are expected to be the most pronounced.

HDI Global SE

HDI Global SE is among the market leaders in industrial insurance in Germany and throughout Europe. HDI Global SE's global position continues to advance. Rising premium income as a result of growing foreign business is reinforcing its strong position as an international competitor. In connection with the sustained internationalisation, the industrial insurer ensures that it remains close to its customers with additional office sites. In the reporting period, offices were opened, among other places, in Bern (Switzerland) and Lille (France). At this time, considerably more than half of the gross premium volume is generated in the Industrial Lines Division managed by HDI Global SE in foreign markets. In 2019, HDI Global SE will realise two-thirds of this gross premium volume in foreign markets.

According to the needs of the customers, HDI Global SE further expanded its global network and currently provides risk-adequate insurance protection based on international standards in 39 countries over the Group's own foreign branches, subsidiaries and affiliates as well as joint ventures. Long-term, proven network partners of HDI Global SE provide this service in more than 100 additional countries. A major strength of the global network lies in the fulfilment of

compliance requirements by taking country-specific regulations into account. The contact person for all customer questions is the account manager responsible for overall customer relations, supported by experts from the branches as well as at the corporate headquarters of HDI Global SE.

In addition, industrial insurance customers in Germany and abroad benefit from decades of experience in risk assessment and risk management, because the complex risks to which industry and middle-sized companies are exposed, demand special protection. HDI Risk Consulting GmbH, a subsidiary of HDI Global SE, provides companies worldwide with access to approximately 180 engineers and specialists, for example from the fields of electrical engineering, civil engineering, mechanical engineering and the automotive industry. On the basis of risk analyses, the risk engineers support companies in the implementation of loss prevention measures and the introduction of an operational risk management system. The risk engineers analyse, for example, site-specific natural hazards and can thereby ascertain the potential for danger and risks arising as a result. Thanks to the worldwide uniform presence under the HDI brand, customers have access to services in the area of risk consulting across insurance lines. The subsidiary of HDI Global SE is active in the areas of fire, motor, engineering and marine insurance.

Individually tailored coverage concepts realise comprehensive insurance solutions and thus offer a complete range of products for the coverage of entrepreneurial risks. Just as important: Owing to many years of experience, HDI Global SE can provide professional claims management, which can provide immediate assistance in a loss event. HDI Global SE also benefits from a high degree of customer focus, in particular through its majority shareholder from the industry (HDI V.a.G.).

Hardly any other development is changing the insurance industry as permanently as digitalisation. As a result of digitalisation, business processes and models are being fundamentally redesigned through the use of IT systems. This development is crucial in particular for the competitiveness of insurance companies.

HDI Global SE is conducting numerous projects in order to shape the digital transformation. Globally harmonised, optimised processes and IT systems are a basic requirement in order to further expand HDI Global SE's market position. The first IT subprojects were implemented over the course of the year in connection with one.BIZ. They support both the cooperation within the local units as well as the global collaboration. The one.BIZ programme started in September 2015 to establish uniform work processes is a core pillar

for HDI Global SE's growth path and will be further expanded in the next few years.

A collaboration and networking between lines, business groups, marketing and sales that is geared towards the customers was demonstrated with the launch of the product development and introduction process. A global marketing instrument was established with HDI Brandbox that enables employees worldwide to quickly access all available marketing materials using an online application. For example, products can be presented to third parties while preserving distinctive local features, giving rise to new possibilities in communication with the customers, the handling of insurance claims, the evaluation of data and the development of new fields of business.

Another focal point in the past year was the expansion of the online offering and digital solutions, by means of which the service quality can be increased, the Company can react more quickly to customer wishes and products can be tailored more specifically to the needs of the markets. For example, HDI Global SE has offered an online portal to enter into drone insurance policies with immediate insurance protection since July 2017. In addition, iInsurance policies are available to enter into directly online for HDI travel insurance as well as rate calculators for HDI Cyber+Smart insurance policies and Travel Insurance for Business (TriB). Another online portal was implemented for the Belgian market in order to cover the local need for a new mandatory health insurance requirement for construction projects. In order to facilitate a goal-oriented communication at a global level, the range of information and online channels already existing in some countries were gradually harmonised and expanded into a digital newsroom. This way, information about new products and solutions can be more easily transported, thereby supporting the sale. Likewise, an international newsletter was drawn up at the turn of the year in order to increase the familiarity with the HDI brand in the local markets.

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

the management under civil and criminal laws can also be accommodated. HDI Global SE expanded the scope of coverage of its cyber insurance policies Cyber+ and Cyber+ Smart for small and medium-sized enterprises. The new policies offer, for example, relevant expansions in the area of cyber-related business interruptions or reputational losses. At the same time, the industrial insurer expanded its cyber insurance offering this year to 14 countries, including the USA. Other countries are to follow. Thus, HDI Global SE follows the high demand for cyber insurance policies on the part of existing and new customers in Germany and in foreign markets.

Further product adaptations were implemented in the area of third-party liability for automotive suppliers and for railway companies as well as in the multi-risk segment for agricultural machinery dealers, nursing homes and long-term care services. There are also new and innovative products such as the evacuation protection policy for the protection of employees in international crisis regions, Financial Lines Compact for managers as well as small and medium-sized enterprises and also smartProtect-M, which provides all-around third-party liability protection for mechanical engineering companies, among other things, with expandable coverage for IT asset losses.

For financial year 2018 we expect slightly rising premiums, in particular as a result of growth in foreign markets. For example, the industrial business in North and South America as well as in (South) East Asia are to be further expanded. In Europe we also see growth opportunities as part of a mid-market strategy. For this purpose, the opening of additional regional locations for our branch offices in Europe continues to be reviewed. We view the fierce competition in the German industrial insurance market as a challenge and assume that it will continue to persist. An increasing tendency toward the self-financing of risks on the part of customers can also be observed. As a result of the unchanged and in some cases aggressive competition with respect to prices and terms and conditions, premium adjustments may only be possible here to a limited extent. In addition, our penetration of the German market is already very high. There is potential for the development of premiums in the further development of multi-risk products in the segment for small and medium-sized enterprises in connection with the mid-market strategy and the sales of cyber insurance policies.

After several years of robust growth in the business acquired from the USA, HDI Global SE expects a decline here in the coming year. The primary reason is the realignment of the business model of the US subsidiaries, which will place a stronger strategic focus on the underwriting of retained local industrial insurance risks and conse-

quently will lower the volume of premiums ceded to HDI Global SE.

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

The capacity for innovation and a focus on service is becoming increasingly important in the insurance industry. While reinforcing existing strength in direct sales on the basis of close customer contacts and technical and personal competencies, work continues on the ongoing improvement of internal procedures, systems and processes. The closer linkage between security technology, product development and risk consulting is an integral component. As a result of corresponding necessary capital expenditures, we do not expect a decrease, but rather stable costs. This leads to a cost ratio at around the same level.

Overall, we expect a visibly increasing underwriting result and a thereby noticeably sinking combined ratio as a result of the better loss experience and the stable costs.

We are assuming that the distortions on the capital markets will continue in 2018, and that the very low level of interest rates will change very little on the whole. This will continue to affect the yields on new investments. We see opportunities in particular in the alternative investments. Above all, real estate, private equity and infrastructure should partially offset the decrease in returns. Overall, we expect a slightly falling total net return and net investment income noticeably below the level of 2017. The persistent low interest rate environment also forces us to further improve underwriting.

With the continuation of the “Balanced Portfolio Initiative” as well as normalised expectations for major losses, we anticipate a noticeably improved underwriting result and clearly better comprehensive income in 2018 compared with 2017.

Report on equality and equal pay

Diversity Management

The diversity of employees is also part of HDI Global SE's corporate identity. The employees contribute their various talents on all continents for the success of the business and the satisfaction of the customers. The fact that a multitude of cultures are united lies in the nature of the international business.

Women and men of all ages with a wide variety of national, ethnic and religious backgrounds as well as people with and without disabilities work at HDI Global SE. A corporate culture characterised by respect, appreciation and mutual acceptance is cultivated. The goal is to provide not only for a working atmosphere characterised by openness and integration, but also to actively and consciously take advantage of diversity in order to maintain and further increase the success and competitiveness of the Group and the companies.

Diversity Management therefore also means the creation of conditions that enable everyone to fully develop their individual potential, talent and capabilities independent of origin, age, experience or personal living situation. The focus thereby lies on the action fields of demographics, gender and migration. Suitable measures for this include the active support of daycare after the return from parental leave, a strengthening of the cooperation of teams comprising a variety of ages as well as flexible working time models if possible.

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

In order to bolster the personal resources, the employees fall back on comprehensive prevention measures as part of holistic health management. For example, health days were held at the sites in Germany in 2017. The Employee Assistance Programme introduced in the prior year will be continued. The offer includes an anonymous and immediate consultation free of charge in the event of private, professional or psychological health concerns as well as a family service.

Equal pay

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

The following information relates to calendar year 2016 in accordance with section 25(3) of the Act to Promote the Transparency of Pay Structures (Entgelttransparenzgesetz; EntgTranspG):

The average number of employees was 1,914 in the 2016 calendar year, of which 804 women and 1,110 men. The average number of full-time employees was 1,642, of which 558 women and 1,084 men as well as 272 part-time employees, of which 246 women and 26 men.

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

Scope of business operations

Branches

In Germany

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

International

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

Products

Casualty insurance

Aviation accident insurance,
clinical trials insurance,
individual comprehensive accident insurance,
individual partial accident insurance,
group accident insurance,
motor accident insurance,
medical insurance in connection with foreign travel insurance,
other accident insurance

Liability insurance

Occupational and industrial injury liability insurance,
water pollution liability insurance,
business and property damage liability insurance,
property damage liability insurance,
Directors and Officers (individual),
fire liability insurance,
aviation liability insurance,
environmental liability insurance,
space flight liability insurance,
pharmaceutical, radiation and nuclear facility liability insurance,
sports liability insurance,
other general liability coverage

Motor third-party liability insurance

Other motor insurance

Comprehensive motor insurance,
partial motor insurance

Legal protection insurance

Fire and property insurance

Industrial fire insurance,
agricultural fire insurance,
fire business interruption insurance,
other fire insurance
machinery insurance,
electronics insurance,
installation insurance,
construction services insurance,
existing buildings' insurance,
TV - business interruption insurance,
other engineering insurance coverage,
extended coverage (EC) insurance,
EC - business interruption insurance,
burglary and theft insurance,
tap water insurance,
glass insurance,
storm insurance, umbrella insurance,
other property loss insurance (motor),
other property loss insurance (marine),
motor warranty insurance

Marine and aviation insurance

Comprehensive aircraft insurance,
comprehensive aviation war risk insurance,
comprehensive spaceflight insurance,
merchandise insurance,
blue water hull insurance,
traffic liability insurance,
brown water hull insurance,
terrorist risk - marine,
goods-in-transport insurance,
valuables insurance,
comprehensive insurance,
other marine insurance,
other aviation and spaceflight insurance

Credit and collateral insurance

Surety insurance,
export credit insurance

Other insurance

Machinery warranty insurance,
other property loss insurance
(motor warranty insurance),
other property damage insurance (aviation),
other property damage insurance (marine),

other property damage insurance (ransom payments),
other property loss insurance
(remediation consultation insurance),
other business interruption insurance,
other miscellaneous insurance,
other property loss insurance (exhibitions, hunting and sporting
weapons, motor luggage, musical instruments, cameras, reefer
cargo, nuclear facilities, automated devices),
other business interruption insurance
(film production insurance, operations shut-down),
other financial losses (loss of license, loss of rent),
other miscellaneous insurance (tank and barrel leakage).
loss of reputation (computer misuse),
burglary, theft and robbery insurance,
tap water insurance,
glass insurance,
storm insurance,
umbrella insurance,
other casualty insurance

All-risk insurance

All-risk property insurance,
all-risk business interruption insurance,
multi-line insurance,
multi-peril insurance

**HDI Global SE also provides reinsurance in the following
insurance classes:**

Accident insurance,
liability insurance,
motor insurance,
aviation insurance,
legal protection insurance,
industrial fire insurance (including terrorism risk, TV),
fire business interruption insurance,
credit insurance,
other miscellaneous insurance,
loss of reputation insurance,
engineering insurance

In addition HDI Global SE also covers liability risks in relation to
nuclear installations, pharmaceuticals and terrorism risks as part of
the business accepted for reinsurance.

Balance sheet as at 31 December 2017

Assets	31.12.2017	31.12.2016
EUR thousand		
A. Intangible fixed assets		
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	21,272	13,672
B. Investments		
I. Land, land rights and buildings, including buildings on third-party land	165,767	124,897
II. Investments in affiliated companies and other equity investments	1,321,985	1,291,406
III. Other investments	5,088,228	5,175,779
IV. Deposits retained by ceding companies on business accepted for reinsurance	61,158	68,718
	6,637,138	6,660,800
C. Receivables		
I. Receivables arising from direct written insurance business, due from:		
1. Policy holders	417,021	256,652
2. Intermediaries	328,719	292,512
	745,740	549,164
II. Receivables on reinsurance business of which due to affiliated companies: EUR 148,692 (134,105) thousand	664,931	564,571
III. Other receivables of which due to affiliated companies: EUR 277,363 (104,028) thousand	680,951	258,375
	2,091,622	1,372,110
D. Other assets		
I. Tangible fixed assets and inventories	10,497	10,973
II. Cash at banks, cheques and cash-in-hand	444,137	329,330
III. Other assets	–	26
	454,634	340,329
E. Accrued or deferred items		
I. Deferred rent and interest income	55,453	55,772
II. Other prepaid expenses	2,414	1,403
	57,867	57,175
F. Excess of plan assets over post-employment benefit liability	5,836	4,537
Total assets	9,268,369	8,448,623

Equity and liabilities	31.12.2017	31.12.2016
EUR thousand		
A. Equity		
I. Subscribed capital	125,000	125,000
II. Capital reserves	281,536	281,536
	406,536	406,536
B. Subordinated liabilities	200,000	200,000
C. Underwriting provisions		
I. Unearned premium reserve		
1. Gross amount	939,473	890,813
2. less: share for business ceded for reinsurance	456,023	429,490
	483,450	461,323
II. Provision for outstanding claims		
1. Gross amount	10,113,736	10,031,299
2. less: share for business ceded for reinsurance	5,010,762	5,144,982
	5,102,974	4,886,317
III. Provision for profit-related and non-profit-related premium refunds		
1. Gross amount	14,136	17,299
2. less: share for business ceded for reinsurance	3,994	7,746
	10,142	9,553
IV. Equalisation reserve and similar provisions	730,780	598,938
V. Other underwriting provisions		
1. Gross amount	46,831	43,464
2. less: share for business ceded for reinsurance	4,603	1,529
	42,228	41,935
	6,369,574	5,998,066
D. Other provisions		
I. Provisions for pensions and similar obligations	424,640	407,403
II. Provisions for taxes	29,645	34,536
III. Other provisions	72,834	73,991
	527,119	515,930
E. Deposits retained on reinsurance ceded	68,088	69,718
F. Other liabilities		
I. Liabilities from direct written insurance business due to:		
1. Policy holders	91,971	53,055
2. Intermediaries	230,592	117,915
	322,563	170,970
II. Payables on reinsurance business of which due to affiliated companies: EUR 102,196 (116,560) thousand	664,396	789,493
III. Liabilities to banks	32	–
IV. Other liabilities of which taxes: EUR 75,189 (47,936) thousand of which social security: EUR 1,208 (917) thousand of which due to affiliated companies: EUR 248,122 (111,022) thousand	694,191	296,651
	1,681,182	1,257,114
G. Deferred and accrued items	2,721	1,259
H. Deferred tax liabilities	13,149	–
Total equity and liabilities	9,268,369	8,448,623

The annuity provision recognised on the balance sheet as at the close of the 2017 financial year under equity and liabilities C.II. is equal to EUR 37,359,712. It is confirmed that the provision for outstanding pension claims shown on the balance sheet under line C.II. has been calculated in consideration of section 341f and section 341g HGB as well as in compliance with the regulation issued based on section 88 (3) of the Insurance Supervision Act (*Versicherungsaufsichtsgesetz*; VAG).

Income statement for the period from 1 January to 31 December 2017

I. Underwriting account	2017	2016
EUR thousand		
1. Premiums earned for own account		
a) Gross written premiums	4,401,253	3,998,709
b) Premiums ceded to reinsurance	2,198,177	2,031,351
	2,203,076	1,967,358
c) Change to the gross premium reserve unearned	-99,723	-36,066
d) Adjustment of reinsurers' share in gross premiums unearned	-53,464	-5,817
	-46,259	-30,249
	2,156,817	1,937,109
2. Underwriting interest income for own account	308	340
3. Other underwriting income for own account	4,192	6,134
4. Expenses on insurance claims for own account		
a) Claims payments		
aa) Gross amount	3,047,951	2,660,570
bb) Reinsurers' share	1,508,084	1,277,093
	1,539,867	1,383,477
b) Changes to the provision for outstanding claims		
aa) Gross amount	394,738	-271,192
bb) Reinsurers' share	33,269	-396,646
	361,469	125,454
	1,901,336	1,508,931
5. Change to other net underwriting provisions	1,457	4,374
6. Expenses for profit-related and non-profit related premium refunds for own account	3,193	5,743
7. Expenses for insurance operations for own account		
a) Gross expenses for insurance operations	876,743	772,561
b) less: commissions and profit commissions received for business ceded to reinsurance	349,737	341,481
	527,006	431,080
8. Other underwriting expenses for own account	7,581	2,103
9. Subtotal	-279,256	-8,648
10. Changes to equalisation reserve and similar provisions	-131,842	-47,750
11. Underwriting result for own account	-411,098	-56,398

II. Non-underwriting account	2017	2016
EUR thousand		
1. Investment income		
a) Income from long-term equity investments of which from affiliated companies: EUR 52,437 (40,537) thousand	58,958	47,438
b) Income from other investments of which from affiliated companies: EUR 5,025 (4,805) thousand		
ba) Income from land, land rights and buildings, including buildings on third-party land	13,576	12,422
bb) Income from other investments	171,040	182,079
c) Income from reversal of write-downs	269	1,152
d) Gains on disposal of investments	32,022	10,971
e) Income from profits received under profit pooling, profit-or-loss transfer, or partial profit transfer agreements	22,752	31,135
	298,617	285,197
2. Investment expenses		
a) Investment management expenses, interest expenses and other expenses related to capital investments	11,236	10,745
b) Write-downs of investments	17,724	5,663
c) Losses on disposal of investments	1,958	3,044
d) Cost of loss absorption	2	–
	30,920	19,452
	267,697	265,745
3. Underwriting interest income	308	340
	267,389	265,405
4. Other income	103,480	60,613
5. Other expenses	127,090	102,711
	-23,610	-42,098
6. Result from ordinary activities	-167,319	166,909
7. Extraordinary expenses	2,806	53,710
8. Extraordinary result	-2,806	-53,710
9. Taxes on income	30,526	36,830
10. Other taxes	3,204	8,584
	33,730	45,414
11. Loss transfer	203,855	–
12. Profit transferred on the basis of profit pooling, profit-and-loss transfer, or partial profit transfer agreements	–	67,785
	203,855	-67,785
13. Net profit/loss for the year	0	0

Notes to the financial statements

General information

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

The annual financial statements and the management report for the 2017 financial year were prepared in accordance with the regulations in the German Commercial Code (Handelsgesetzbuch; HGB), the German Stock Corporation Act (Aktiengesetz; AktG), the German Insurance Supervision Act (Versicherungsaufsichtsgesetz; VAG) and the Regulation on the Accounting of Insurance Undertakings (Verordnung über die Rechnungslegung von Versicherungsunternehmen; RechVersV) in the version applicable at the balance sheet date.

Accounting policies

Assets

Intangible fixed assets

Intangible fixed assets were recognised at cost less amortisation applied in accordance with their customary useful lives. The domains hdi-global.com and hdiglobal.com represent an exception to this rule. They were recognised at cost and are not amortised.

Land, land rights and buildings, including buildings on third-party land

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

The gross rental value method in accordance with the regulations concerning the principles governing the assessment of the fair market values of properties (German Ordinance on the Valuation of Property/Real estate– Immobilienwertermittlungsverordnung; ImmoWertV) and the supplementary Valuation Guidelines are applied to determine the fair value of our real properties. The present value of cash flows generated by the property and discounted over its remaining economic useful life was determined using this approach. As a rule, current market values are determined by external experts at least every five years (section 55(3) RechVersV). The cost or the value assessed in a report compiled by an external, publicly certified expert was recognised for all land and buildings newly acquired as well as properties under construction.

Investments in affiliated companies and long-term equity investments

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

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

The market value of the shares in affiliated companies and long-term equity investments has been determined in accordance with section 56 RechVersV. As a rule, the present value of future distributable financial surpluses (capitalised value of expected earnings) was recognised as the fair value. A company whose fair value is primarily based on the sum of the capitalised value of expected earnings of its subsidiaries was measured accordingly using a sum-of-parts approach. If the continuation of operations as a legally independent unit could no longer be assumed in the short to medium term, a net asset value would be applied. In individual cases, the fair value was set equal to the carrying amount as long as there was no indication of impairment. For companies whose noteworthy assets comprise land and buildings, the fair market value of the land and buildings was taken into account. For companies that subscribe to equity instruments not traded on the capital market, the measurement is carried out analogously to comparable instruments that are held directly using the net asset value approach.

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

Other investments

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

The fair value was determined for shares under long-term securities using the earnings per share (EPS) method, an income approach for each share on the basis of expected annual profits estimated by independent analysts, or the higher fair market value. If earnings per share exceeded 120% of fair market value, they were capped at 120%. Additional general reductions would be recognised as needed.

The method used to determine the fair value of special bond funds accounted for as fixed assets was changed on 31 December 2017; as a result, the fixed-income securities are now shown at amortised cost in place of the nominal value when determining the fair value. In the case of default securities and securities whose market value is less than 50% of the nominal value, the lower fair market value continues to be applied. This change is appropriate with respect to the provisions under section 341c(3) HGB in light of the fact that investments will also be made in specialised funds with premiums in the future. Impairment write-downs will not be impeded due to the change to amortised cost. For mixed funds accounted for as fixed assets, the fair value is determined separately for the individual components such as shares and bonds using the aforementioned methods. In addition to the earnings per share of the included shares and/or the calculated value of the included bonds, all other elements of the fund, such as liquid funds (cash and cash equivalents), interest accruals, receivables and liabilities factor into the fair value of the respective shares, bonds, and mixed funds.

In the case of some asset backed securities products, the Company assumed for reasons of prudence that there will be no distributions until maturity and recognises the loans at their present value. The amount to be repaid is reached up to the final maturity by collecting the earnings of the respective product.

As a general rule, derivatives were measured at cost or the lower fair value prevailing on the balance sheet date. Excepted from this, the market value of over-the-counter options with a notional value of EUR 5.5 million was not determined for reasons of materiality.

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

Foreign exchange futures are subject to a prohibition on recognition according to the so-called non-recognition principle for pending transactions. In case of a negative market value, provisions for impending losses from pending transactions would be recognised. There were no open forward exchange contracts as of 31 December 2017.

The fair value of other investments was generally determined on the basis of their open market value. For investments having a market or listed price, the market value was defined as the market or listed price on the balance sheet date, or on the last day prior to this date for which a market or listed price could be identified. In cases in which no stock market quotations were available, yield-implied prices were used based on price formation methods established in financial markets. Investments were valued at maximum at their expected realisable value in accordance with the principle of prudence.

Registered bonds, notes receivable and loans as well as loans guaranteed by mortgages, land charges and annuity land charges were accounted for at amortised cost (section 341c HGB), whereby the investments were recognised upon acquisition at the purchase price or amount paid. The difference to the repayment amount was amortised using the effective interest method over the period until the time of the first call, interest rate adjustment or extension deadline. Write-downs were recognised based on the less strict lower-of-cost-or-market principle if the amortised cost exceeded the market value and fair value on the balance sheet date.

The fair values of the registered bonds, notes receivable and loans were determined by means of product and rating-specific yield curves using a net present value method. Special structures such as deposit protection, guaranty obligations, or subordination were taken into account with respect to the spread premiums applied. The fair value of zero coupon registered bonds and zero coupon notes receivable was determined based on the Company's own calculations derived using actuarial methods.

With respect to the structured products in the portfolio, they are financial instruments for which the underlying instrument in the form of a fixed income cash instrument is contractually bundled as a unit with one or more derivatives. As a general rule, they were accounted for uniformly at amortised cost according to the provisions applicable for fixed assets. They were measured accordingly based on the less strict lower of cost or market principle (section 341b(1) sentence 2 HGB in conjunction with section 253(3) sentence 5 HGB).

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

Deposits with banks and deposits retained were recognised at their nominal amounts.

Receivables

Receivables from direct written insurance business were recognised at their notional amounts. For the business in Germany, a global valuation allowance for receivables from policy holders and insurance brokers was calculated in the amount of 1%. For the international business, a global valuation allowance was recognised based on the age structure of receivables from policy holders and for the receivables from insurance brokers, the general risk of default was taken into account through the recognition of an adequate global valuation allowance.

Reinsurance receivables and other receivables were recognised on the balance sheet date at their nominal amounts. The general default risk related to receivables was accounted for by recognising an adequate global valuation allowance.

Since the cost accounts were closed for new postings before the balance sheet date, costs that were posted after the record date for accrued and deferred items were recognised as other receivables. This item is offset by estimated costs for the period between the closing of the cost accounts and the balance sheet date, which were reported under other provisions.

The corporate tax credit was calculated in accordance with the Act on Fiscal Measures Accompanying the Introduction of the European Corporation (SE) and on Amending Further Tax Regulations (Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften; SEStRG). Since the remaining term of the receivable from corporate income tax is less than one year at the reporting date, discounting is not necessary.

Other assets

Operating and office equipment was recognised at cost and is depreciated over the customary useful life. The depreciation was applied according to the straight-line method; the periods of useful life range from three to twenty years. Low-value items up to EUR 150 are immediately recognised as operating expenses. Low-value items costing between EUR 150 and EUR 410 are capitalized and written off in full in the year of acquisition. Some inventory items are carried at a fixed value.

Cash at banks, cheques and cash-in-hand were recognised at their nominal amount.

Prepaid expenses

The items to be included under prepaid expenses were recognised at nominal value.

Excess of plan assets over post-employment benefit liability

The line item "Excess of plan assets over post-employment benefit liability" represents the excess amount remaining after netting post-employment benefit obligations with plan assets under individual contracts (mainly pension liability insurances).

Equity and liabilities

Subordinated liabilities

The subordinated liabilities were recognised at their nominal amount.

Approximation and simplification methods

In the determination of the reinsurers' contractual shares in all gross basis items, a timing offset of one month was applied. The calculation was made on the basis of gross data written for the first eleven months, and the shares for reinsurance were estimated for the remaining month.

The following method was applied to calculate the estimate: The shares of locally managed reinsurers were deducted from the gross underwriting items relevant for reinsurance for the foreign branch offices, since they were written by year-end similar to the gross values. A standard reinsurance regime representing an average reinsurance valuation was applied to the shares and total German portfolio calculated using this approach. Special cases, e.g. a loss event exceeding the priority for non-proportional reinsurance, were taken into account separately.

The method used is subject to regular technical controls; in aggregate, it does not have a material effect on the net assets, financial position and results of operations of the Company.

Underwriting provisions

For both the direct written business and the business accepted for reinsurance – provided no information in this respect was provided by the ceding companies – unearned premiums were determined according to the 1/360 method or for the exact number of days (pro rata temporis) in compliance with the regulations of the supervisory authority and the circular from the German Federal Minister of Finance dated 30 April 1974. The shares ceded for reinsurance are accrued in accordance with the contractual agreements.

For the direct written insurance business, the provision for outstanding claims was determined separately for each individual claim. In the co-insurance business, the information provided by the lead insurers was adopted. If the information from the lead insurers was not available as at the balance sheet date, the provisions were estimated for each business relationship on the basis of past experience. In motor liability, motor comprehensive and motor partial own damage insurance, the group-valuation option was used for unsettled minor claims. In the blue water and brown water hull insurance lines, the provision for the indemnification of claims for the financial year losses was measured globally based on past experience.

Corresponding provisions for claims incurred but not yet reported ("IBNR") were recognised for insurance claims of which we were not yet aware at the balance sheet date. These provisions for claims incurred but not yet reported were calculated based on the origin of the insurance business as well as the distinctive characteristics of the respective lines using various methods. In the motor liability class, the provisions were calculated based on the chain ladder method. In the other classes, the calculation was made based on the expected loss expenses and geared towards a three to five year average, taking special factors into account.

The provision for outstanding pension claims (annuity claims provision) calculated in accordance with section 65 VAG and the provision for anticipated adjustment expenses were recognised in addition. The provision for external claims adjustment expenses is comprised of external and internal costs. Whereas the provision for external claims adjustment expenses is recognised for specific insurance claims, the provision for internal claims adjustment expenses is determined using a factor-based approximation method. This method is based on actual claims payments made as a measure of volume for costs incurred and determines the future provision for internal claims adjustment expenses as a percentage share of the current provision for claims payments based on this relationship. The corresponding percentage rate/factor is determined as the average of historical observation years. Since it is assumed that the claims for reported losses have already been partially adjusted, the

determined factor is reduced based on past experience for specific lines. In the prior year, a two-step method was chosen to calculate the provision for adjustment expenses. The starting point in this approach was the calculation of the provision for claims adjustment expenses in accordance with the Decree issued by the Federal Minister of Finance on 2 February 1973 for each HGB class on the basis of prior year values. The provision for claims adjustment expenses thus calculated was then compared to the residual provisions for claims payments. The resulting percentage rate served as a factor for the relevant calculation method applied in the current financial year, for which the factors were then applied to the current residual provisions for claims payments. For losses for which it was apparent that the provision thus calculated was insufficient, the provision was increased by an additional individual estimate.

The (gross) annuity claims provision included in the provision for outstanding claims was calculated based on actuarial principles. The calculation was made based on the DAV 2006 HUR mortality tables for women and men. As in the previous year, the actuarial interest rate is 0.9%.

Receivables from recoveries, salvages and loss sharing agreements for settled claims have been taken into account as deductions to the loss provision ("loss reserve").

A provision for premium refunds was recognised in accordance with contractual terms and conditions.

The equalisation reserve was calculated in compliance with the regulations according to section 29 RechVersV and the Appendix to section 29 RechVersV as well as the Regulations on Reporting for Insurance Undertakings (Versicherungsberichterstattungsverordnung; BerVersV).

The provision for the insurance for nuclear facilities and terrorism risk was calculated in accordance with section 30(2) and/or (2a) RechVersV. The provision for major risks relating to pharmaceutical risk was determined in accordance with section 30(1) RechVersV.

The other underwriting provisions were determined as follows:

The provision for premium lapse risks was calculated by multiplying the annual premiums by the average ratio of provisions for premium lapse risks to premiums over the last three years. The provision for obligations arising from membership in the Verkehrsoferhilfe e. V. association was recognised according to the notice from the association. The provision for repayment amounts on suspended motor insurance policies was determined on a contract-by-contract basis.

The provision for impending losses from directly written insurance business or insurance business accepted for reinsurance reported under other underwriting provisions in accordance with section 31(1) no. 2 RechVersV are recognised as the negative balance of the income expected for the contracts for which there is a legal obligation at the balance sheet date and the expected expenses. The income includes the expected premium as well as the effects of interest. The expenses include claim expenses and administrative expenses. The expense items are derived based on past experience and adjusted as needed if the forecast of future performance was distorted by effects in prior loss years.

With respect to the underwriting provisions from the insurance business accepted for reinsurance, the provisions ceded by the prior insurers were generally recognised under liabilities unless the Company had better knowledge. To the extent that the amounts ceded were not yet available at the time that the financial statements were prepared, the provision for losses ("loss reserve") was estimated using the amounts ceded last year.

Other provisions

Pursuant to section 253(1) sentence 2 HGB pension liabilities were recognised at the settlement amount determined in accordance with the principle of prudence and have been discounted in accordance with section 253(2) sentence 2 HGB over

an assumed remaining life of 15 years, using the average interest rate for the last ten years as published by the German Bundesbank in accordance with German Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung; RückAbzinsVO). The provision for pensions for employer-funded commitments and for employee-funded commitments not contingent on securities were calculated in accordance with the entry age normal method. The measurement is based on the turnover probabilities (probabilities of withdrawal) according to Dr. Klaus Heubeck's 2005G actuarial charts, which were strengthened based on the risk trend observed in the portfolio; compared with the prior year, in particular, the mortality rates for current and future male retirees and widows were reduced on average by 13.00%. Further information regarding trend assumptions, the discount rate and the difference in accordance with section 253(6) HGB is provided under section D.1 Provisions for pensions and similar obligations of this report.

For share-based employee-financed pension obligations, the settlement amount corresponds to the market value of the security. The claims from reinsurance policies were netted with the obligations as nettable plan assets.

The calculation of the provision for partial retirement included all employees of the Company who have already taken advantage of partial retirement. The calculations were performed using the actuarial charts 2005G of Dr Klaus Heubeck. The calculations were based on the actuarial decrement tables for active employees. To this end, an actuarial interest rate of 1.33% (1.67%) was applied assuming an average remaining term of two years. As in the prior year, a rate of 2.50% was assumed for salary increases. In accordance with section 253 HGB, the provisions are recognised at the required settlement amount. They comprise the provisions for back wages and salaries, the provisions for top-up amounts, the provisions for the additional employer contributions to the statutory pension insurance scheme and provisions for severance.

The anniversary obligations are measured based on the same principles as the pension obligations, whereby the same assumptions for taking into account salary trend and fluctuation probabilities are applied. Only the discount rate is calculated differently using an average value from the past seven years and applied at 2.81% (3.22%).

Provisions for taxes and other provisions take all identifiable risks and uncertain obligations into account and were recognised at the settlement amount dictated by prudent business judgement.

Provisions with a remaining term of more than one year were discounted at the average market interest rate for the last seven years as determined and published by the German Bundesbank in accordance with the RückAbzinsV.

Deposits retained

Deposits retained on direct written insurance business were recognised as a liability at the settlement amount.

Other liabilities

Other liabilities are recognised at their settlement amounts.

Deferred income

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

Deferred tax liabilities

Since HDI Global SE in its relationship with Talanx AG is a consolidated tax group subsidiary (Organgesellschaft), deferred taxes on measurement differences of the German parent company were presented at the level of the consolidated tax group parent (Organträger), so that only differences between the carrying amounts in the financial accounts and in the local tax accounts of the foreign branch office are to be taken into account.

The anticipated future tax expenses and refunds were netted when determining tax amounts to be accrued. For this purpose, deferred tax liabilities (in particular from other receivables/management accounts and settlement accounts, accounts receivable from the reinsurance business as well as the equalisation reserve) were netted with the deferred tax assets (in particular with respect to the differing carrying amounts in the financial accounts and in the local tax accounts of the receivables from direct written insurance business) of all foreign branch offices separately for each individual country. Deferred taxes were measured based on the local tax rate.

Currency translation

If there are items denominated in foreign currency, they are translated as at the balance sheet date at the closing rate (mean spot exchange rate) for balance sheet items and at the average rate for items in the income statement. With respect to monthly foreign currency measurement, the portfolio positions are translated at the respective exchange rate prevailing at the end of the month. The translation rate for the monthly measurement of income statement line items is the respective final rate on the last day of the preceding month. These items are translated using a rolling method. The addition of the translated individual items effectively resulted in a translation at average rates.

In order to limit exposure to currency risk as much as possible, liabilities denominated in a foreign currency are largely matched with assets in the same currencies/amount. For the major foreign currencies, any currency translation gains net of currency translation losses during the period were allocated as unrealised to a provision for currency risk. The provision is reviewed quarterly.

Assets

Changes to assets A. and B. I. to B. III in the 2017 financial year

	Balance sheet amounts for the prior year	Additions
EUR thousand		
A. Intangible fixed assets		
I. Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets	13,672	16,258
B. I. Land, land rights and buildings, including buildings on third-party land	124,897	44,897
B. II. Investments in affiliated companies and long-term equity investments		
1. Shares in affiliated companies	997,527	80,455
2. Loans to affiliated companies	150,605	4,651
3. Long-term equity investments	128,932	961
4. Loans to other long-term investees and investors	14,342	–
Total B. II.	1,291,406	86,067
B. III. Other investments		
1. Shares, shares in investment funds and other non-fixed interest securities	1,412,140	178,643
2. Bearer bonds and other fixed interest securities	2,661,066	512,427
3. Mortgages, land charges and annuity land charges	507	–
4. Other loans		
a) Registered bonds	700,684	141,069
b) Promissory notes and loans	318,944	55,850
5. Deposits with financial institutions	82,438	72,401
Total B. III.	5,175,779	960,390
Total	6,605,754	1,107,612

Disposals	Reversal of write-downs	Exchange rate fluctuations	Amortisation, depreciation and write-downs	Balance sheet values for the financial year	Market values 31.12.2017
56	–	-75	8,527	21,272	–
–	237	–	4,264	165,767	217,924
14,565	–	-17,876	13,000	1,032,541	1,273,536
5,127	–	-3,164	–	146,965	152,828
69	–	-506	–	129,318	162,316
–	–	-1,181	–	13,161	13,161
19,761	–	-22,727	13,000	1,321,985	1,601,841
32,522	–	-7,400	–	1,550,861	1,626,458
600,450	32	-117,370	460	2,455,245	2,572,639
42	–	–	–	465	491
198,442	–	-2,949	–	640,362	677,016
75,801	–	-7,713	–	291,280	310,153
–	–	-4,824	–	150,015	149,977
907,257	32	-140,256	460	5,088,228	5,336,734
927,074	269	-163,058	26,251	6,597,252	7,156,499

B. Investments

Disclosures pursuant to section 52 no. 1a RechVersV

The carrying amount of owned properties used in connection with Company operations was equal to EUR 40,094 (41,467) thousand.

Disclosures pursuant to section 55(7) RechVersV

	Market values
	31.12.2017
EUR thousand	
Determination of market values from the year	
2017	180,867
2015	24,300
2013	10,640
Measurement at cost	2,117
Total	217,924

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

	Carrying amounts	Market values
	31.12.2017	31.12.2017
EUR thousand		
Shares in affiliated companies	5,971	5,728
Shares, shares in investment funds and other non-fixed interest securities	56,942	51,788
Bearer bonds and other fixed interest securities	319,190	314,101
Total	382,103	371,617

A write-down in the amount of EUR 10,243 (13,716) thousand was avoided by means of dedication as fixed assets in accordance with section 341b(2) HGB. In our estimation, the impairment is temporary.

Disclosures pursuant to section 285 no. 19 HGB.

Separately accounting for the individual components of a structured financial instrument (convertible bond) results in three options, each with a carrying amount of zero. The fair value has not been determined for reasons of materiality.

Disclosures pursuant to section 277(3) HGB

Impairment losses were recognised on fixed assets in the financial year in the amount of EUR 13,000 (119) thousand.

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

	Balance sheet values	Market values	Distribution
	31.12.2017	31.12.2017	2017
EUR thousand			
Fixed income funds			
EURO-RENT 3 Master	1,040,929	1,081,434	48,100
HDI Global SE Absolute Return	50,927	52,626	1,021
BlueBay Emerg Mrkt. Inv. Grade Corp. Bond FD. I	39,975	35,620	1,477
Fisch CB - Global Defensive BQ2	25,038	26,446	219
Ampega CrossoverPlus Rentenfonds I (a)	3,500	3,815	93
Subtotal Fixed income funds	1,160,369	1,199,941	50,910
Mixed funds			
HDI Global Equities	271,152	301,725	15,574
Total	1,431,521	1,501,666	66,484

Write-downs pursuant to section 253(3) sentence 4 HGB were not applied to the special funds reportable under hidden reserves, since we considered the impairments to be temporary. For the equity funds held as fixed assets, the fair value of every single stock in the portfolio was calculated by the EPS (“earnings per share”) method. If EPS data was not available, market values (max. 120%) were used as an alternative.

For bond funds held as fixed assets, the fair value of fund shares represents the sum of its constituting components (bonds, cash, accrued interest, payables/receivables, derivatives, etc.).

The fair value of each individual bond in the portfolio corresponds to the amortised cost for each bond or the lower market value in a credit event or if the market value is lower than 50% of the nominal value. There are no restrictions with respect to the daily surrender option.

Disclosures pursuant to section 341b(2) HGB

The Company has exercised the option to classify investments with a carrying amount of EUR 3,932,968 (3,881,640) thousand as fixed assets. EUR 1,550,861 (1,407,677) thousand of this amount can be attributed to shares, shares in investment funds and other non-fixed interest securities and EUR 2,382,107 (2,473,964) thousand to bearer bonds and other fixed-interest securities.

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

Name, registered office	Share in % ¹⁾	Currency	Equity in thousand	Result in thousand
Credit Suisse (Lux) Gas Transit Switzerland SCS, Luxembourg ²⁾	16.31	EUR	132,691	7,264
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne ³⁾	100.00	EUR	456,519	19,131
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne ³⁾	100.00	EUR	116,448	19,729
HDI-Gerling de Mexico Seguros S. A., Mexico City ³⁾	100.00	MXN	168,744	1,560
HDI-Gerling Verzekeringen N.V., Rotterdam ³⁾	100.00	EUR	132,464	674
HDI Global Insurance Company, Chicago ³⁾	100.00	USD	138,625	14,534
HDI Global Network AG, Hannover ³⁾	100.00	EUR	187,664	- ⁵⁾
HDI Global Network AG Escritório de Representação no Brasil Ltda, São Paulo ³⁾	98.02	BRL	280	674
HDI Global SA Limited, Johannesburg ³⁾	100.00	ZAR	49,601	5,347
HDI Global Seguros S.A., São Paulo ³⁾	100.00	BRL	65,004	2,186
HDI Risk Consulting GmbH, Hannover ³⁾	100.00	EUR	1,626	- ⁵⁾
HDI Schadenregulierung GmbH, Hannover ³⁾	100.00	EUR	25	- ⁵⁾
HDI Specialty Insurance Company, Chicago	100.00	USD	n/a	n/a
HDI Versicherung AG, Vienna ³⁾	89.74	EUR	28,471	10,334
IVEC Institutional Venture and Equity Capital GmbH, Cologne	23.80	EUR	33,620	-1,850
Magma HDI General Insurance Ltd., Kolkata ⁴⁾	25.50	INR	2,255,924	-324,461
Nassau Assekuranzkontor GmbH, Cologne	100.00	EUR	24	- ⁵⁾
O O O Strakhovaya Kompaniya HDI Strakhovanie, Moscow ³⁾	99.00	RUB	248,421	80,086
Petro Vietnam Insurance Holdings, Hanoi ³⁾	35.74	VND	6,360,424,007	637,304,575
Riethorst Grundstücksgesellschaft AG & Co. KG, Hannover ³⁾	50.00	EUR	152,025	5,660

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

2) Short financial year from 24 November 2016 to 30 June 2017.

3) Carrying amounts as at 31 December 2016.

4) Carrying amounts as at 31 March 2017.

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

C. III. Other receivables

	31.12.2017	31.12.2016
EUR thousand		
Claims payments/Co-insurance/Share of losses attributable to other companies	320,873	69,387
Receivables from affiliated companies	277,363	104,028
Receivables from tax authorities	35,089	25,004
Receivables due to timing differences in accounting entries	15,782	21,829
Payments not yet assigned	6,845	20,673
Receivables from the sale of renewal rights	5,503	6,297
Receivables for incidental expenses incurred in connection with property	2,490	2,421
Receivables from security deposits, sureties and loan collaterals	2,399	1,115
Receivables from the sale of Oslo Fjord	2,056	-
Costs posted after the cost accounts are closed	1,581	2,205
Miscellaneous	10,970	5,416
Total	680,951	258,375

Receivables from affiliated companies relate in the amount of EUR 203,855 thousand to receivables from the assumption of losses on the part of Talanx AG. In addition, there are other receivables based on income from long-term equity investments in the amount of EUR 45,336 thousand. In addition, these also include receivables from HDI Global Network AG in the amount of EUR 21,511 thousand and from HDI Risk Consulting GmbH in the amount of EUR 1,214 thousand from the transfer of profits.

Costs posted after the closing of the cost accounts (1 December 2017) were recognised as other receivables. In the following period, the accruals were reversed through profit and loss.

Other receivables have a remaining term of more than one year in the amount of EUR 3,847 (1,287) thousand.

D. I. Tangible fixed assets and inventories

	2017	2016
EUR thousand		
Balance as at the start of the financial year	10,973	9,416
Additions	6,979	4,684
Disposals	1,170	1,023
Amortisation, depreciation and write-downs	6,112	2,009
Exchange rate fluctuations	-173	-95
Balance as at the end of the financial year	10,497	10,973

E. I. Deferred rent and interest income

In the reporting period, only income from interest was accrued in the amount of EUR 55,453 (55,751) thousand. Furthermore, prepaid rents were accrued in the amount of EUR 21 thousand.

E. II. Other prepaid expenses

Other prepaid expenses in the amount of EUR 2,414 (1,403) thousand represent administrative expenses.

Equity and liabilities

A. I. Subscribed capital

The subscribed capital in the amount of EUR 125,000 thousand is fully paid in and is divided into 125,000 registered shares of EUR 1,000 each. Talanx AG is the sole shareholder.

A. II. Capital reserves

The capital reserves are equal to EUR 281,536 thousand. The creation of a statutory reserve is not required since section 150(2) AktG ("statutory reserve fund") has already been satisfied by the creation of a capital reserve in accordance with section 272(2) no. 1 HGB.

B. Subordinated liabilities

	31.12.2017	31.12.2016
EUR thousand		
neue leben Lebensversicherung AG, Hamburg	88,632	-
PB Lebensversicherung AG, Hilden	88,632	-
HDI Versicherung AG, Hannover	20,000	20,000
Gerling Versorgungskasse VVaG, Cologne	2,736	-
HDI Lebensversicherung, Cologne	-	180,000
Total	200,000	200,000

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

C. Total gross underwriting provisions

	31.12.2017	31.12.2016
EUR thousand		
Direct written insurance business		
Casualty insurance	220,971	210,861
Liability insurance	4,935,366	5,053,817
Motor third-party liability insurance	663,735	612,471
Other motor insurance	115,589	86,039
Fire and property insurance	996,195	1,120,929
of which:		
a) Fire insurance	345,005	510,831
b) Engineering insurance	593,791	553,927
c) Other property insurance	57,399	56,171
Marine and aviation insurance	541,825	583,448
All-risk insurance	93,891	624,535
Legal protection insurance	613,522	85,325
Other insurance	131,919	118,094
Total	8,313,013	8,495,519
Business accepted for reinsurance	3,531,944	3,086,294
Total insurance business	11,844,957	11,581,813

Of which:

a) Gross provision for outstanding claims: EUR 10,113,736 (10,031,299) thousand

b) Equalisation reserve and similar provisions: EUR 730,780 (598,938) thousand

C. II. 1. Gross provision for outstanding claims

	31.12.2017	31.12.2016
EUR thousand		
Direct written insurance business		
Casualty insurance	153,751	145,680
Liability insurance	4,542,091	4,697,762
Motor third-party liability insurance	602,550	552,892
Other motor insurance	65,104	55,137
Fire and property insurance	752,493	914,661
of which:		
a) Fire insurance	275,755	473,529
b) Engineering insurance	429,004	394,895
c) Other property insurance	47,734	46,237
Marine and aviation insurance	472,561	528,892
All-risk insurance	79,553	522,555
Legal protection insurance	503,282	76,168
Other insurance	117,594	105,284
Total	7,288,979	7,599,031
Business accepted for reinsurance	2,824,757	2,432,268
Total insurance business	10,113,736	10,031,299

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

The provision for premium refunds presented in the financial year in the amount of EUR 14,136 (17,299) thousand relates with EUR 4,188 (2,784) thousand to performance-based dividends to policyholders and in the amount of EUR 9,948 (14,515) thousand to non-performance-based dividends to policyholders.

C. IV. Equalisation reserve and similar provisions

	31.12.2017	31.12.2016
EUR thousand		
Direct written insurance business		
Casualty insurance	28,387	26,982
Liability insurance	179,705	147,118
Motor third-party liability insurance	32,780	43,707
Other motor insurance	40,321	22,716
Fire and property insurance	37,718	9,934
of which:		
a) Fire insurance	37,670	9,934
c) Other property insurance	48	0
Marine and aviation insurance	36,347	15,527
Legal protection insurance	10,708	3,820
Other insurance	437	281
Total	366,403	270,085
Business accepted for reinsurance	364,377	328,853
Total insurance business	730,780	598,938

D. I. Provision for pensions and similar liabilities

	2017	2016
EUR thousand		
Balance as at the start of the financial year	407,403	365,582
Use	12,918	24,019
Addition	5,155	54,899
Reversal	2,419	0
Accrued interest / interest rate change	27,559	10,525
Discounting	–	1,332
Exchange rate fluctuations	-1,458	-6,231
Balance (carried forward)	1,318	5,315
Balance as at the end of the financial year	424,640	407,403

As required by the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz; BilMoG), the provision for pensions was measured at the settlement amount, taking into account salary and pension trends as well as employee turnover rates, and discounted to the balance sheet date. As in the previous year, the trend was assumed to be 2.50% with respect to increases in salary and 1.74% (1.86%) with respect to pension increases. The provisions for pensions were discounted using an interest rate of 3.68% (4.00%) and assuming a remaining term of 15 years.

Probable staff turnover rates (%)

Age	Men	Women
20	37.0	21.2
25	12.3	9.3
30	8.9	8.4
35	7.0	7.4
40	5.8	5.1
45	5.1	4.6
50	4.3	4.6
55	3.2	5.1
60 or older	0.0	0.0

The settlement amount for the employer-funded provision for pensions as at 31 December 2017 was EUR 462,629 (446,526) thousand. The fund held to cover this amount was accounted for at fair value of EUR 44,825 (44,526) thousand in accordance with section 253(1) sentence 4 HGB. The cost of the fund converted based on the exchange rate prevailing on the reporting date was EUR 40,739 (42,207) thousand.

The settlement amount for the employee-funded provision for pensions was EUR 10,354 (10,538) thousand. Nettable plan assets totalling EUR 9,354 (9,673) thousand represent pension liability insurance claims offset in the amount of EUR 9,262 (9,540) thousand with the obligations. The amortised cost determined according to the lower of cost or market principle and thus the fair value within the meaning of section 255(4) sentence 3 HGB is equal to the so-called actuarial reserves of the insurance agreement plus excess.

Income from plan assets for pension obligations in the amount of EUR 252 thousand was netted with expenses from the unwinding of the discount on provisions for pension obligations in the amount of EUR 429 thousand in the reporting period.

The difference in accordance with section 253(6) sentence 1 amounts to EUR 47,384 thousand. In order to calculate the difference, the commitment discounted at the average interest rate of the past ten years and recognised was compared to the amount that would have resulted if it had been discounted at the average interest rate of the past seven years.

In the 2010 balance sheet year, the option in Article 67(1) sentence 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch; EGHGB) to distribute the required addition to the provisions for pensions over the maximum of 15 years. The allocated amounts still outstanding at the beginning of the financial year were appropriated to the provisions for post-employment benefit obligations.

D. III. Other provisions

	31.12.2017	31.12.2016
EUR thousand		
Remuneration payable	27,331	25,031
Interest on additional taxes resulting from the tax audit	9,610	10,830
Partial retirement	5,768	7,361
Consulting costs	6,668	7,279
Vacation claims and credit balances in flextime accounts	6,313	6,120
Anniversary bonuses	4,662	4,382
Costs for the preparation of the annual financial statements	3,114	2,841
Provisions for costs	1,633	2,859
Administrative expenses of foreign branch offices	1,333	674
Pension fund	1,052	1,045
Outstanding invoices for building-related expenses	744	1,594
Berufsgenossenschaft (Employers' Liability Association)	497	477
Litigation expenses	477	660
Miscellaneous	3,632	2,838
Total	72,834	73,991

The settlement amount of the provision of partial retirement was equal to EUR 11,201 (12,651) thousand. The fund held to cover this amount was accounted for at fair value in the amount of EUR 5,433 (5,290) thousand. The cost of the fund amounted to EUR 5,302 (5,223) thousand.

F. IV. Other liabilities

	Term < 1 year 31.12.2017	Term < 1 year 31.12.2016	Term > 1 year 31.12.2017	Term > 1 year 31.12.2016	Total 31.12.2017	Total 31.12.2016
EUR thousand						
Liabilities from non-group lead business	326,658	48,922	–	–	326,658	48,922
Liabilities to affiliated companies	248,122	107,738	–	–	248,122	107,738
Liabilities due to tax authorities	75,189	47,936	–	–	75,189	47,936
Liabilities not yet attributed	32,222	69,525	–	–	32,222	69,525
Liabilities from the investing activities based on claim payments	2,304	4,275	–	–	2,304	4,275
Trade payables	1,708	1,036	1,473	3,286	3,181	4,322
Liabilities to social security institutions	1,208	917	–	–	1,208	917
Liability from the acquisition of corporate bonds	444	597	443	916	887	1,513
Miscellaneous	4,420	11,503	–	–	4,420	11,503
Total	692,275	292,449	1,916	4,202	694,191	296,651

EUR 200,000 thousand in liabilities to affiliated companies relate to liabilities from a liquidity current account with Talanx AG.

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

G. Deferred income

EUR 1,603 (-) thousand in deferred income items in the amount of EUR 2,721 (1,259) thousand relates to management commissions collected for the subsequent year.

H. Deferred tax liabilities

Deferred tax liabilities from temporary differences (EUR 34,342 thousand) in excess of deferred tax assets were accounted for in the amount of EUR 13,149 thousand after offsetting with deferred tax assets on tax loss carryforwards of the foreign branches (EUR 21,193 thousand).

Income statement

I. 1. a) Gross written premiums

	2017	2016
EUR thousand		
Direct written insurance business		
Casualty insurance	136,852	129,521
Liability insurance	924,847	865,511
Motor third-party liability insurance	282,352	220,950
Other motor insurance	153,436	127,068
Fire and property insurance	535,358	517,346
of which:		
a) Fire insurance	193,789	180,050
b) Engineering insurance	281,502	273,233
c) Other property insurance	60,067	64,063
Marine and aviation insurance	304,920	285,147
All-risk insurance	544,446	499,348
Legal protection insurance	22,606	20,798
Other insurance	86,656	77,413
Total	2,991,473	2,743,102
Business accepted for reinsurance	1,409,780	1,255,606
Total insurance business	4,401,253	3,998,708

Origin of gross written premiums for the direct written insurance business

	2017	2016
EUR thousand		
In Germany	1,553,594	1,484,898
Other member states of the European Community as well as other treaty states of the Agreement Creating the European Economic Area	1,124,271	948,035
Third countries	313,608	310,169
Total	2,991,473	2,743,102

I. 1. Gross premiums earned

	2017	2016
EUR thousand		
Direct written insurance business		
Casualty insurance	134,350	128,769
Liability insurance	914,933	852,870
Motor third-party liability insurance	269,928	218,770
Other motor insurance	151,452	127,165
Fire and property insurance	523,359	500,511
of which:		
a) Fire insurance	189,278	175,437
b) Engineering insurance	273,777	262,542
c) Other property insurance	60,304	62,532
Marine and aviation insurance	309,073	285,350
All-risk insurance	532,370	501,016
Legal protection insurance	22,419	20,655
Other insurance	85,337	74,616
Total	2,943,221	2,709,722
Business accepted for reinsurance	1,358,309	1,252,920
Total insurance business	4,301,530	3,962,642

I. 1. Net premiums earned

	2017	2016
EUR thousand		
Direct written insurance business		
Casualty insurance	104,531	92,326
Liability insurance	505,010	511,436
Motor third-party liability insurance	259,467	195,119
Other motor insurance	145,113	112,889
Fire and property insurance	254,067	235,873
of which:		
a) Fire insurance	83,277	77,259
b) Engineering insurance	143,806	133,328
c) Other property insurance	26,984	25,286
Marine and aviation insurance	226,123	205,653
All-risk insurance	136,304	113,938
Legal protection insurance	19,898	16,478
Other insurance	47,035	45,199
Total	1,697,548	1,528,911
Business accepted for reinsurance	459,269	408,198
Total insurance business	2,156,817	1,937,109

I. 2. Underwriting interest income

In the direct written gross insurance business, underwriting interest income was calculated on the annuity claims provision. It is calculated as 0.90% (1.25%) of the average of the opening balance and the closing balance of the provision.

I. 4. Gross expenses for insurance claims

	2017	2016
EUR thousand		
Direct written insurance business		
Casualty insurance	85,439	78,092
Liability insurance	572,933	402,597
Motor third-party liability insurance	231,056	189,001
Other motor insurance	118,282	100,646
Fire and property insurance	342,032	495,318
of which:		
a) Fire insurance	116,348	302,377
b) Engineering insurance	191,140	175,765
c) Other property insurance	34,544	17,176
Marine and aviation insurance	197,954	250,002
All-risk insurance	355,246	263,245
Legal protection insurance	19,764	15,489
Other insurance	52,694	38,728
Total	1,975,400	1,833,118
Business accepted for reinsurance	1,467,289	556,260
Total insurance business	3,442,689	2,389,378

I. 7. a) Gross expenses for insurance operations

	2017	2016
EUR thousand		
Direct written insurance business		
Casualty insurance	30,491	28,431
Liability insurance	167,690	148,281
Motor third-party liability insurance	48,925	38,377
Other motor insurance	28,503	22,790
Fire and property insurance	119,779	106,173
of which:		
a) Fire insurance	40,904	34,174
b) Engineering insurance	65,551	58,003
c) Other property insurance	13,324	13,996
Marine and aviation insurance	75,026	65,488
All-risk insurance	92,827	86,898
Legal protection insurance	5,706	4,951
Other insurance	26,643	23,532
Total	595,590	524,921
Business accepted for reinsurance	281,153	247,640
Total insurance business	876,743	772,561

Of the gross expenses for insurance operations for the financial year, EUR 120,939 (111,392) thousand are attributable to acquisition expenses and EUR 755,804 (661,169) thousand are attributable to general and administrative expenses.

Reinsurance balance

	2017	2016
EUR thousand		
Direct written insurance business		
Casualty insurance	-10,123	-13,888
Liability insurance	-153,858	-224,828
Motor third-party liability insurance	-1,218	-4,442
Other motor insurance	-3,327	197
Fire and property insurance	-21,539	61,891
of which:		
a) Fire insurance	-20,588	93,494
b) Engineering insurance	3,715	-4,060
c) Other property insurance	-4,666	-27,543
Marine and aviation insurance	-37,836	-9,206
All-risk insurance	-166,308	-180,826
Legal protection insurance	7,293	909
Other insurance	-11,483	-2,570
Total	-398,399	-372,763
Business accepted for reinsurance	144,775	-430,842
Total insurance business	-253,624	-803,605
– = in favour of the reinsurers		

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

The balance for the reinsurance business includes a total amount of EUR 284 (329) million for non-cash reinstatement premiums. This breaks down into EUR 238 (286) million for the direct written insurance business and EUR 46 (43) million for the business accepted for reinsurance.

I. 11. Underwriting result for own account

	2017	2016
EUR thousand		
Direct written insurance business		
Casualty insurance	5,738	4,725
Liability insurance	-12,416	-12,987
Motor third-party liability insurance	-1,104	-2,086
Other motor insurance	-16,359	-11,750
Fire and property insurance	-9	-41,933
of which:		
a) Fire insurance	-27,326	-68,166
b) Engineering insurance	19,531	22,412
c) Other property insurance	7,786	3,821
Marine and aviation insurance	-23,455	-37,351
All-risk insurance	-85,541	-29,676
Legal protection insurance	-748	-3,963
Other insurance	-5,736	9,440
Total	-139,630	-125,581
Business accepted for reinsurance	-271,468	69,183
Total insurance business	-411,098	-56,398

Run-off result for own account

In the financial year, HDI Global SE realised a run-off profit in the amount of EUR 300,493 (265,859) thousand. The information on the run-off results for the individual lines of business are discussed in the management report under "results of operations".

Commissions and other compensation for insurance agents, personnel expense

	2017	2016
EUR thousand		
Commissions of any kind for insurance agents within the meaning of section 92 HGB for direct written insurance business	273,011	243,658
Wages and salaries	225,265	208,541
Social insurance contributions and expenses for benefits	34,710	35,381
Expenses for retirement benefits	18,854	-11,175
Total expenses	551,840	476,405

Number of insurance contracts with a minimum term of one year

	2017	2016
Number		
Direct written insurance business		
Casualty insurance	44,540	14,504
Liability insurance	95,333	71,789
Motor insurance	665,130	578,835
Fire and property insurance	71,382	40,803
of which:		
a) Fire insurance	25,352	9,335
b) Engineering insurance	38,656	23,948
c) Other property insurance	7,374	7,520
Marine and aviation insurance	31,349	22,417
All-risk insurance	53,545	14,342
Legal protection insurance	14,528	9,517
Other insurance	27,935	27,862
Total	1,003,742	780,069

II. 4. Other income

	2017	2016
EUR thousand		
Income from the derecognition of liabilities	62,268	3,556
Income from services rendered	27,799	25,948
Currency exchange gains	6,067	13,943
Income from reversal of specific and global valuation allowances	1,975	328
Interest and similar income	1,510	780
Income from the reversal of other provisions	990	6,694
Income from the sale of renewal rights	–	6,204
Miscellaneous	2,871	3,160
Total	103,480	60,613

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

II. 5. Other expenses

	2017	2016
EUR thousand		
Write-downs of receivables	30,431	7,039
Additions to the interest portion of the provision for pensions	26,775	12,352
Expenses for services	24,635	21,121
Interest expense	11,320	12,073
Amortisation and write-downs of intangible fixed assets	7,930	4,810
Expenses for the Company as a whole	7,849	10,326
Other expenses from cost unit accounting	7,710	7,550
Currency exchange losses	5,475	15,632
Project cost for the migration of the foreign branch offices	1,713	8,720
Miscellaneous	3,252	3,088
Total	127,090	102,711

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

Interest expenses include expenses for the unwinding of the discount in the amount of EUR 157 (173) thousand.

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

II. 8. Extraordinary result

The extraordinary result of EUR -2,806 (-53,710) thousand mainly reflects the full funding of provisions for pensions in accordance with the German Accounting Law Modernization Act (BilMoG) in the amount of EUR 2,815 (54,275) thousand.

II. 9. Taxes on income

Taxes on income amount to EUR 30,526 (36,830) thousand, EUR 19,477 thousand of which relates mainly to actual taxes both for the current financial year as well as for prior assessment periods for foreign branches as well as deferred tax liabilities of foreign branches in the amount of EUR 13,149 thousand, offset among other things by German tax refunds for prior assessment periods in the amount of EUR 2,770 thousand.

II. 10. Other taxes

The line item Other taxes relates in the amount of EUR 4,527 thousand to expenses on the part of the foreign branches and in the amount of EUR 1,323 thousand income to German income (of which EUR 1,363 thousand can be attributed to insurance tax refunds for prior assessment periods), resulting in a net expense from other taxes in the amount of EUR 3,204 thousand.

Other disclosures

Employees

	2017	2016
Number (average)		
Full-time employees	2,444	2,325
Part-time employees	427	354
Total	2,871	2,679

Governing bodies of the Company

Please find the names of the members of the Supervisory Board and the Board of Management in the overview on pages 8 and 9 of this report.

Remuneration for the members of governing bodies and advisory boards

Remuneration for the members of the Board of Management totalled EUR 5,649 (4,972) thousand. Total remuneration for the Supervisory Board was equal to EUR 70 (72) thousand and remuneration for the Advisory Board totalled EUR 611 (641) thousand. The remuneration of former Board of Management members and their survivors totalled EUR 4,770 (4,798) thousand. A total of EUR 57,713 (56,176) thousand was recognised for pension liabilities due to former Management Board members and their survivors.

Important agreements

A control and profit-and-loss transfer agreement is in effect with Talanx AG as the controlling entity. Control and profit-and-loss transfer agreements are further in effect between HDI Global SE as the controlling company and, respectively, Nassau Assekuranzkontor GmbH, HDI Gerling Schadenregulierung GmbH, HDI Risk Consulting GmbH and HDI Global Network AG as the controlled companies.

Shareholdings in the Company

The sole shareholder of HDI Global SE is Talanx AG, which holds 100% of the share capital. Talanx AG has notified us that it holds a direct majority interest in HDI Global SE, Hannover (notice pursuant to section 20(4) AktG) and that it holds more than one fourth of the shares of HDI Global SE directly at the same time (notice pursuant to section 20(1) and (3) AktG).

Contingencies and other financial obligations

HDI Global SE is a member of Verkehrsofopferhilfe e.V., Hamburg. As a result of this membership, it is obligated to contribute to the potential payments made by the association as well as its general and administrative expenses in line with our pro-rata share of the premium income generated by the members of the association in direct written motor liability insurance in the next to last calendar year.

As a member of the Pharma-Rückversicherungs-Gemeinschaft, HDI Global SE is required to assume a pro-rata share of the outstanding obligations in the event that any of the remaining members becomes insolvent. The similar obligation exists under a contractual agreement with the Deutsche Kernreaktor-Versicherungsgemeinschaft as regards a default of one of the association members.

HDI Global SE set up a trust account that showed a current balance of EUR 247,759 thousand as at the balance sheet date in order to provide collateral for underwriting liabilities on the part of HDI Global Insurance Company. The carrying amount of the collateral deposited in this trust account in the form of securities and cash amounted to EUR 245,134 thousand at the balance sheet date. In addition, there are other assets pledged, assigned as collateral or deposited with a carrying amount of EUR 71,793 thousand.

Talanx AG, Hannover, assumed the fulfilment of the Company's obligations for old age pensions from former employees for internal and external arrangements. Under this pension commitment, the Company has a joint liability in an amount totalling EUR 59,451 thousand as at the end of the financial year.

As a result of the spin-off of a division from HDI-Gerling Rechtsschutz Versicherung AG to HDI Global SE completed in 2010, HDI Global SE is joint and severally liable as the assuming legal entity for the liabilities on the part of HDI-Gerling Rechtsschutz Versicherung AG (currently trading as ROLAND Rechtsschutz-Versicherungs-AG) incurred before the spin-off took effect. HDI Global SE is only liable for the obligations remaining with the transferring legal entity for a period of five years or, in the case of pension obligations based on the Occupational Pensions Act (Betriebsrentengesetz; BetrAVG), for a period of ten years. As a result of the spin-off of various equity investments from HDI-Gerling International Holding AG (currently trading as Talanx International AG) to HDI Global SE that were implemented in the year 2010, HDI Global SE as the legal successor is liable pursuant to section 133 of the German Transformation Act (Umwandlungsgesetz; UmwG) together with Talanx International AG as a joint and several debtor, for the liabilities of Talanx International AG that were created prior to the effectiveness of the spin-off, and is so liable for a period of five years, or for a period of ten years for pension obligations based on the Occupational Pensions Act. The total amount of these liabilities is equal to EUR 4,127 thousand.

The shortfall due to pension obligations within the meaning of Article 28(1) EGHGB that is not recognised on the balance sheet is equal to EUR 1,173 thousand.

As the sponsoring undertaking for Gerling Versorgungskasse VVaG, the Company is proportionately liable for any deficits at Gerling Versorgungskasse.

Other financial obligations in the amount of EUR 6,095 thousand are related to guaranteed credits (Avalkredite) and bank guarantees (Bankgarantien). Letters of credit in effect with various banks total EUR 666,597 thousand. In addition, there are obligations under fixed liability guarantees in the amount of EUR 68,000 thousand.

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

Capital contribution commitments vis-à-vis contracting parties

31.12.2017

EUR thousand	
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne	90,724
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne	59,490
Caplantic AIF, SICAV-SIF S.C.Sp. - Caplantic Infrastructure I Sub-Fund	19,669
AeAM Dutch Mortgage Fund	14,000
Muzinich Pan-European Private Debt I, SCSp	9,612
Borkum Riffgrund 2 Investor Holding GmbH	9,468
BlueBay Senior Loan Fund I (A) SLP	8,732
UBS Clean Energy Infrastructure Switzerland 2, KmGK, Basle	8,546
Five Arrows Direct Lending SCSp	6,170
EQT Credit II (No. 1) Limited Partnership	3,832
Ares Capital Europe II (E), L.P.	1,520
Bahnhofsvorplatz Bremen GmbH	1,500
Total*	233,263

* The capital contribution commitments have a remaining term of more than one year in the amount of EUR 9,468 thousand.

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

There are other contractual obligations to Lang & Cie. Achtzehnte Projektentwicklung GmbH & Co. KG, Frankfurt a. M., in the amount of EUR 27,425 thousand.

There are no further call commitments on shares and equities, notes payable or other contingent liabilities of any kind.

Related party disclosures

The Company is engaged in extensive reinsurance agreements with companies in the Talanx Group. Appropriate considerations are paid and received for all reinsurance coverage as well as any and all services that are received and/or rendered in connection with this protection. To that extent, this business has no effect on the net assets or results of operations when compared to the use and rendering of the described services by or for companies that are not related parties.

In the reporting period, there were no non-arms' length transactions with related parties that were relevant to an assessment of the financial position or results of operations.

Total audit fees

The fee for the independent auditor – broken down into expenses for audit service, for other certification services, for tax advisory services and for other services – are included in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie V.a.G. and Talanx AG on a pro-rata basis.

The independent auditor audited the annual financial statements, including the management report and the reporting package prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2017. The reporting packages prepared on a quarterly basis in accordance with IFRS are subjected to a review. In addition, the solvency statement for the year ended 31 December 2017 was audited. Furthermore, the optimisation of the billing processes was supported in an area of reinsurance for quality assurance purposes.

Consolidated financial statements

The Company is a member company of the HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover and of Talanx AG, Hannover. HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (the parent company of the HDI Group) prepares consolidated financial statements (for the largest group of companies) according to section 341i HGB that includes the Company within the basis of consolidation. Talanx AG as the parent company of the Talanx Group is further required to prepare consolidated financial statements (for the smallest group of companies) pursuant to section 290 HGB, which are prepared – as provided for in section 315e(1) HGB – on the basis of the International Financial Reporting Standards (IFRS) adopted for the European Union (EU) in accordance with article 4 of Regulation (EC) No. 1606/2002. The consolidated financial statements are published in the German Federal Gazette (Bundesanzeiger). The inclusion of HDI Global SE in the consolidated financial statements of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit and Talanx AG exempts the Company in accordance with section 291(1) HGB from preparing its own consolidated financial statements.

Report on post-balance sheet date events

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

Hannover, 7 March 2018

The Board of Management

Dr. Christian Hinsch

Dr. Joachim ten Eicken

Frank Harting

Dr. Edgar Puls

Dr. Stefan Sigulla

Jens Wohlthat

Ulrich Wollschläger

Independent auditor's report

To HDI Global SE, Hannover

Report on the audit of the financial statements and of the management report

Audit opinion

We have audited the financial statements of HDI Global SE, Hannover – which comprise the balance sheet as at 31 December 2017 and the income statement for the financial year from 1 January to 31 December 2017, as well as the notes to the financial statements, including the accounting policies presented therein. We have also audited the management report of HDI Global SE for the financial year from 1 January to 31 December 2017. We have not audited the content of the corporate governance declaration, contained in the management report on page 31, in accordance with German statutory requirements. The report on equality and equal pay (remuneration report), which is included in the annex to the management report on page 41, was not audited.

In our opinion, based on our audit findings,

- the accompanying financial statements comply, in all material respects, with the legal requirements of German commercial law applicable to insurance undertakings and give a true and fair view of the net assets and financial position of the Company as at 31 December 2017, and of its results of operations for the financial year from 1 January to 31 December 2017, in accordance with German generally accepted accounting principles, and
- the accompanying management report as a whole provides a suitable view of the Company's position. In all material respects, this management report is consistent with the financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the management report does not include the content of the aforementioned corporate governance declaration or the report on equality and equal pay (remuneration report).

In accordance to section 322(3) sentence 1 HGB, we declare that our audit has not led to any reservations with respect to the legal compliance of the financial statements and the management report.

Basis for the opinions

We conducted our audit of the financial statements and of the management report in accordance with section 317 HGB and the EU Audit Regulation (No 537/2014; hereinafter referred to as 'EU Audit Regulation') and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Our responsibilities under those regulations and guidelines are further described in the 'Auditor's responsibilities for the audit of the financial statements and management report' section of our report. We are independent of the Company in accordance with the requirements of European Union law as well as German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities under German professional law in accordance with these requirements. In addition, pursuant to Article 10(2) (f) EU Audit Regulation, we hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5(1) EU Audit Regulation. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion on the financial statements and on the management report.

Key audit matters in the audit of the financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters. The following presentation is based on the classification of the balance sheet items in the annual financial statements.

Measurement of shares in affiliated companies and long-term equity investments

Please refer to the comments in the notes to the annual financial statements on pages 48 to 49 with respect to the applied accounting policies as well as the on pages 56 to 60 for a further breakdown of the line items and on page 57 for the presentation of the fair values and valuation reserves. Please refer to page 59 of the notes regarding the presentation of equity interest. Disclosures on risk are included in the management report on pages 34 to 36.

Financial statement risk

Shares in affiliated companies in the amount of EUR 1,032.5 million and Other long-term equity investments in the amount of EUR 129.3 million are shown in the annual financial statements of HDI Global SE as at 31 December 2017 under investments. The share of these long-term financial assets in total assets amounts to a total of 12.5% and therefore has a significant influence on the Company's net assets.

Shares in affiliated companies and long-term equity investments are measured at cost or at the lower fair value impairment in the event of impairment that is expected to be permanent. The Company determines the fair value of shares in affiliated companies and other long-term equity investments using the income approach. In order to determine the capitalised value of the expected earnings of the insurance companies, the future excess financial return is discounted to the valuation date using earnings forecasts based on the local management's medium-term budgets for the coming five financial years. A so-called "sum-of-the-parts measurement" was carried out for holding companies, whereby the holding company represents the sum of the fair values of its individual equity investments. Private equity and property companies are measured based on their net asset value.

The calculation of fair value based on the income approach is complex and depends to a large degree on estimates and assessments on the part of the Company with respect to assumptions that have been made. This applies in particular for the estimate of future cash flows and long-term growth rates, the determination of the discount rate and the estimation of the expected length of any impairment. The Company determines cash flow projections as part of an integrated planning process on the basis of locally prepared business plans. Market risk premiums, beta factors and growth rates are determined and adopted centrally as part of the valuation process.

Our audit approach

The audit of the shares in affiliated companies and long-term equity investments conducted by us was based on risk and included in particular the following activities:

- We assessed the appropriateness of the internal controls set up for the valuation process and satisfied ourselves of their effectiveness by means of tests of operation, whereby we focused on controls for the quality assurance of the business valuations.
- We critically assessed the assumptions underlying the cash flow projections based on our understanding of the business activity and branch as well as the general economic developments as part of a test sample.

- Furthermore, we convinced ourselves of the Company's previous forecasting quality by comparing budgets from earlier financial years for this sample with the results actually realised and analysing discrepancies.
- We compared the assumptions and parameters underlying the discount rate, in particular the risk-free interest rate, the market risk premium and the beta factor, with own assumptions of our valuation specialists and publicly available data.
- In order to ensure the arithmetic accuracy of the applied valuation model, we gained a thorough understanding of the Company's calculations on the basis of selected risk-oriented elements.
- We assessed whether the write-downs and reversals of write-downs were recognised correctly based on the measurement results.

Our conclusions

The approach used in the impairment testing of shares in affiliated companies and other long-term equity investments is appropriate and consistent with the valuation policies. The Company's assumptions and parameters are appropriate.

Measurement of the unlisted Other loans

Unlisted Other loans relate to the portfolio of registered bonds as well as notes receivable and loans. Please refer to the comments in the Company's notes to the annual financial statements on pages 49 to 50 with respect to the applied accounting policies as well as the on pages 56 to 57 for a further breakdown of the line items and on page 57 for the presentation of the fair values and valuation reserves. Disclosures on risk are included in the management report on pages 34 to 36.

Financial statement risk

The unlisted Other loans amount to a total of EUR 931.6 million in the annual financial statements of HDI Global SE as at 31 December 2017. The unlisted Other loans constitute 10.1% of the total assets and therefore has a significant influence on the net assets of the Company.

The unlisted registered bonds as well as notes receivable and loans are accounted for either at amortised cost or at the lower fair value in the event of impairment that is expected to be permanent. With respect to these investments, there is the fundamental risk that

- the fair value stated in the notes is incorrect,
- impairment that is expected to be other than temporary in the portfolios accounted for as fixed assets was not identified and therefore an impairment write-down was not recognised or
- a reversal of impairment was not recognised or not recognised in the required amount.

Furthermore, there are no fair values directly observable on an active market for the unlisted Other loans. These must be determined using alternative valuation methods that, among other things, require the determination of an adequate yield curve as well as spreads in line with the issuer's creditworthiness. The determination of such fair values is particularly complicated if it is not a matter of fixed-interest loans with no special terms and the assumptions made depend on estimates and assessments on the part of the Company. This applies in particular for a spread in line with the issuer's creditworthiness if no information regarding the credit rating of the specific issuer is available as of the balance sheet date and special structures, such as deposit protection, guaranty obligations or subordination are to be taken into account.

Our audit approach

We performed our audit of the unlisted Other loans based on risk and included in particular the following activities:

- We audited the process of recording the portfolio data and valuation parameters (yield curves, spreads) in the portfolio management system, including the controls set up for this purpose. We satisfied ourselves by means of tests of operation of the effectiveness of the installed controls.
- We audited the adequacy of the applied valuation models with respect to their actuarial suitability.
- We assessed the classification of parameters with the help of our investment specialists. We compared the parameters used with values derived from observable market data and internal benchmarking.
- In addition, we made our own calculations for individual securities and compared our results with the values reported by the Company.
- For the Other loans accounted for as fixed assets, we audited whether the impairment write-downs and reversals of write-downs were recognised accurately.

Our conclusions

Overall, the methods applied as well as the assumptions on which the determination of the fair values of the unlisted Other loans was based are appropriate. Necessary impairment write-downs and reversals of write-downs were recognised.

Measurement of the partial loss provisions for reported and unreported insurance claims contained in the gross provision for outstanding claims

Please refer to the comments in the Company's notes to the financial statements on pages 52 and 53 with respect to the accounting policies. Disclosures on risk are included in the management report on pages 32 and 33.

Financial statement risk

The gross provision for outstanding claims amounts to EUR 10,113.7 million, equal to 109.1% of the total assets.

Within the gross provision for outstanding claims, a distinction is made between various partial loss provisions with respect to provisions in which reported insurance claims and provisions in which unreported insurance claims (claims incurred but not yet reported) constitute the majority of the funds appropriated to the provision.

The measurement of the provisions for reported and unreported insurance claims is fraught with uncertainty regarding the anticipated size of the loss and is therefore highly subject to discretion. In accordance with generally accepted German accounting principles, the estimate may not be made on a risk-neutral basis in the sense of an equal weighting of opportunities and risks, but instead must be carried out in adherence to the accounting principle of prudence (section 341e(1) sentence 1 HGB).

Provisions for reported insurance claims are estimated based on the anticipated expense for each individual loss claim. Provisions for claims incurred but not yet reported are calculated primarily based on past experience and recognised for unreported insurance claims using generally accepted actuarial models.

There is a risk with respect to insurance claims reported as at the balance sheet date that insufficient funds have been set aside for the outstanding claim payments. With respect to losses already incurred but not yet reported (claims incurred but not yet reported), there is likewise the risk that such claims will not be taken into account, whereby the amount of uncertainty and discretion in the insurance lines is particularly high for insurance claims that take very long to process as well as for current major losses.

Our audit approach

In the audit of provisions for reported and unreported insurance claims, we deployed our own actuaries as part of the audit team and performed the following key audit procedures:

- We examined the process used to determine the provisions in the direct written insurance business, identified significant controls and tested their suitability and effectiveness. We convinced ourselves that the controls with which the timely recording and processing of insurance claims – and therefore the correct assessment – are to be ensured, are set up appropriately and carried out effectively.
- Based on a conscious selection, we convinced ourselves that the files are properly maintained and retraced the calculation of the size of individual reported loss provisions based on the status of documented claims for various insurance lines and classes of the direct written business. In making the selection, we took peculiarities with respect to the size of the claim and run-off result into consideration.
- We examined the process used to handle incoming invoices for business assumed under a contract, identified significant controls and tested their suitability and effectiveness. We convinced ourselves that the controls with which the complete and accurate transfer of data from the cedents is to be ensured are set up appropriately and carried out effectively.
- We reviewed the Company's calculations to determine claims incurred but not yet reported.
- For a better understanding, we carried out our own actuarial calculations of the reserves for selected segments of the direct written and assumed business with the help of our loss actuaries. The segments were selected on the basis of risk considerations. In doing so, in each case we determined a point estimate as well as an appropriate interval with the help of statistical probabilities and compared these results with the Company's calculations.
- We analysed the actual development of the provision for outstanding claims in the prior year using the run-off result for indications of insufficiently cautious allocations to provisions.
- We analysed the development of the loss provisions on the basis of a time series comparison, in particular of the number of loss claims, loss frequencies, the average size of losses, and processing speeds as well as the loss ratios for the financial year and loss ratios reported on the balance sheet.

Our conclusions

Overall, the methods used as well as the assumptions underlying the measurement of the partial loss provisions for reported and unreported insurance claims contained in the gross provision for outstanding claims are appropriate.

Other information

Management is responsible for the other information. The other information includes:

- The corporate governance declaration,
- the report on equality and equal pay (remuneration report) and
- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report as well as our auditors' report.

Our opinion on the financial statements and management report does not cover the other information and accordingly we neither express an audit opinion nor any form of assurance conclusion thereon.

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

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

Responsibilities of the Management and the Supervisory Board for the financial statements and management report

The Company's management is responsible for preparing financial statements that comply, in all material respects, with the legal requirements of German commercial law applicable to insurance undertakings and that the financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German generally accepted accounting principles. Furthermore, management is responsible for such internal control as management determines is necessary in accordance with German generally accepted accounting principles to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Furthermore, management is responsible for disclosing, as applicable, matters related to going concern. In addition, management is responsible for using the going concern basis of accounting unless management is precluded from doing so due to actual or legal circumstances.

Moreover, management is responsible for preparing the management report, which as a whole provides a suitable view of the Company's position, as well as, in all material respects, is consistent with the financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for such arrangements and measures (systems) as they determine are necessary to enable the preparation of the management report in compliance with the applicable German statutory requirements and for providing sufficient and appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for monitoring the Company's financial reporting process for preparing the financial statements and the management report.

Auditor's responsibilities for the audit of the financial statements and the management report

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the management report as a whole provides a suitable view of the Company's position, as well as, in all material respects, is consistent with the financial statements and our audit findings, complies with German statutory requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our opinion on the financial statements and management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and the EU Audit Regulation, as well as in compliance with the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW], will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and this management report.

As part of our audit we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements and the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the financial statements, and of the arrangements and measures relevant to the audit of the management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or management report or, if such disclosures are inadequate, to modify our respective opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German generally accepted accounting principles.
- Evaluate consistency of the management report with the financial statements, its legal compliance and presentation of the Company's position.

- Perform audit procedures on the prospective information presented by management in the management report. Based on sufficient and appropriate audit evidence, we hereby in particular trace the significant assumptions used by management as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information as well as the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

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

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

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

Other legal and regulatory requirements

Other disclosures pursuant to article 10 of the EU Audit Regulation

We were appointed as auditors at the Supervisory Board Meeting of 9 March 2017. We were appointed by the Supervisory Board on 21 April 2017. We have been HDI Global SE's auditor in compliance with the transitional provisions of Article 41(2) of the EU Audit Regulation since financial year 2003.

We declare that the audit opinion in this auditor's report is consistent with the additional report to the Supervisory Board referred to in Article 11 of the EU board Regulation (audit report).

Statutory auditor responsible for the engagement

The auditor responsible for the engagement is Florian Möller.

Hannover, 8 March 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

Möller
Wirtschaftsprüfer
[German public auditor]

Neuschulz
Wirtschaftsprüfer
[German public auditor]

Addresses

HDI Global SE
 HDI-Platz 1
 30659 Hannover
 Telephone: +49 511 645-0
 Telefax: +49 511 645-4545

Locations in Germany

HDI Global SE
 Berlin Branch
 Theodor-Heuss-Platz 7,
 Entrance: Pommernallee 1
 14052 Berlin
 Telephone: +49 30 3204-0
 Telefax: +49 30 3204-137

HDI Global SE
 Dortmund Branch
 Märkische Straße 23–33
 44141 Dortmund
 Telephone: +49 231 5481-0
 Telefax: +49 231 5481-137

HDI Global SE
 Düsseldorf Branch
 Am Schönenkamp 45
 40599 Düsseldorf
 Telephone: +49 211 7482-0
 Telefax: +49 211 7482-460

HDI Global SE
 Essen Branch
 Huysenallee 100
 45128 Essen
 Telephone: +49 201 823-0
 Telefax: +49 201 823-2900

HDI Global SE
 Hamburg Branch
 Überseering 10a
 22297 Hamburg
 Telephone: +49 40 36150-0
 Telefax: +49 40 36150-295

HDI Global SE Hannover Branch
 Riethorst 4
 30659 Hannover
 Telephone: +49 511 6263-0
 Telefax: +49 511 6263-430

HDI Global SE
 Leipzig Branch
 Eisenbahnstraße 1–3
 04315 Leipzig
 Telephone: +49 341 6972-0
 Telefax: +49 341 6972-100

HDI Global SE
 Mainz Branch
 Hegelstraße 61
 55122 Mainz
 Telephone: +49 6131 388-0
 Telefax: +49 6131 388-114

HDI Global SE
 Munich Branch
 Ganghoferstraße 37–39
 80339 Munich
 Telephone: +49 89 9243-0
 Telefax: +49 89 9243-319

HDI Global SE
 Nuremberg Branch
 Dürrenhofstraße 6
 90402 Nürnberg
 Telephone: +49 911 2012-0
 Telefax: +49 911 2012-266

HDI Global SE
 Stuttgart Branch
 Heilbronner Straße 158
 70191 Stuttgart
 Telephone: +49 711 9550-0
 Telefax: +49 711 9550-300

International locations

Argentina

HDI Seguros S.A.
Tte. Gral. D. Perón 650 5P
(C1038AAN) Buenos Aires
Telephone: +54 11 5300 3300
Telefax: +54 11 5811 0677

Australia

HDI Global SE
Exchange House, Level 12
10 Bridge Street
Sydney NSW 2000
Telephone: +61 2 8274-4200
Telefax: +61 2 8274-4299

Brisbane office

HDI Global SE Australia
Suite 55, Level 54
111 Eagle Street
BRISBANE QLD 4000
Telephone: +61 498 028 699

Melbourne office

Level 49
360 Elizabeth Street
Melbourne VIC 3000
Telephone: +61 3 8686 1150

Bahrain

HDI Global SE
Bahrain Branch
Building 31, 161, Al Zamil Tower
Government Avenue
P.O. Box No. 65331
Manama, Kingdom of Bahrain
Telephone: +973 1720 2900
Telefax: +973 1720 2929

Belgium

HDI Global SE
Branch for Belgium
Avenue de Tervuren 273 B1
1150 Brussels
Telephone: +32 2 7730-811
Telefax: +32 2 7730-950

Antwerp office

Britselei 15/4
2000 Antwerp
Telephone: +32 3 260 64 20
Telefax: +32 3 260 64 69

Brazil

HDI Global Seguros S.A
Av. das Nações Unidas, 14.261
– Ala B (Wing B) 21st floor –
Condominio WT Morumbi
Morumbi – Zip code (Cep) 04794-000
São Paulo – SP – Brazil
Telephone: +5511 5508 1300

Chile

HDI Seguros S.A.
Av. Manquehue Norte 160
Edificio Plaza Manquehue
Las Condes/Santiago
Telephone: +56 2 249 761 00

China

HDI Global SE
Hong Kong Branch
Room 5202, Central Plaza 18
Harbour Road
Wanchai, Hong Kong
Telephone: +852 25 98-8338
Telefax: +852 25 98-8838

Denmark

HDI Global SE
Denmark Branch
Indiakaj 6, 1. Sal
2100 Copenhagen
Telephone: +45 3336-9595

France

HDI Global SE
Direction pour la France
Tour Opus 12 – La Défense 9
77 Esplanade du Général de Gaulle
92914 Paris La Défense Cedex
Telephone: +33 1 44 0556-00
Telefax: +33 1 44 0556-66

Lille office

HDI GLOBAL SE
Direction Régionale Nord
Château Rouge – Wood Parc
Bâtiment C
Avenue de la Marne
59700 Marcq-en Baroeul

Lyon office

Direction Régionale Lyon Méditerranée
Le Lugdunum
5 Place Jules Ferry
69006 Lyon
Telephone: +33 4 26 78 74 01

Greece

HDI Global SE, Hellas 1
Vissarionos & Omirou
10672 Athens
Telephone: +30 210 7259-181
Telefax: +30 210 7259-177

United Kingdom

HDI Global SE
10 Fenchurch Street
London EC3M 3BE
Telephone: +44 20 7696-8099

Birmingham office

Colmore Plaza
20 Colmore Plaza
Queensway
Birmingham B4 6AT
Telephone: +44 20 7696 8346

Glasgow office

12 offices
2 West Regent Street
Glasgow
G2 1RW
Telephone: +44 20 7696 2741

Manchester office

4th Floor, Lowry House
17 Marble Street
Manchester M2 3AW
Telephone: +44 20 7696 8516

India

Magma HDI General Insurance Company Limited
Rustomjee Aspiree,
4th Floor, 401,
Off Eastern Express Highway,
Imax Dome Theater Road, Sion (East),
Mumbai – 400022
Telephone: +91 22 672 84 800

Ireland

HDI Global SE
Merrion Hall
Strand Road
Sandymount
Dublin D04 P6C4
Telephone: +353 1 299-4622

Italy

HDI Global SE
Rappresentanza Generale per l'Italia
Via Franco Russoli, 5
20143 Milan
Telephone: +39 02 83113-400
Telefax: +39 02 83113-202

Genova office

Salita Santa Caterina 2
16123 Genova
Telephone: +39 010 5536-927
Telefax: +39 010 5536-002

Japan

HDI Global SE
Japan Branch
Terrace Square 4F, 3-22
Kanda Nishikicho, Chiyoda-ku
Tokio 101-0054
Telephone: +81 3 4577-7780
Telefax: +81 3 3291-4600

Canada

HDI Global SE
Canada Branch
181 University Avenue, Suite 1900
Toronto, Ontario M5H 3M7
Telephone: +1 416 368-5833
Telefax: +1 416 368-7836

Malaysia

HDI Global SE, Labuan
C/O Brighton Management Limited
Brighton Place
Lot U0213 - U0215, Jalan Bahasa
P.O. Box 80431, 87014 Labuan FT,
Malaysia
Telephone: +60 (87) 442899
Telefax: +60 (87) 451899

Mexico

HDI-Gerling de México, Seguros, S.A.
Blvd. Manuel Ávila Camacho 175
Polanco 1a Sección, Del. Miguel Hidalgo
11510 Ciudad de México
México
Telephone: +52 55 52027534

The Netherlands

HDI Global SE
the Netherlands
Westblaak 14
3012 KL Rotterdam
Telephone: +31 10 4036-100
Telefax: +31 10 4036-275

HDI-Gerling Verzekeringen N.V.

Westblaak 14
3012 KL Rotterdam
Telephone: +31 10 4036-100
Telefax: +31 10 4036-275

Amsterdam office

Haaksbergweg 75
1101 BR Amsterdam Zuidoost
Telephone: +31 20 5650 655

Austria

HDI Versicherung AG
Edelsinnstraße 7-11
1120 Vienna
Telephone: +43 50 905-0
Telefax: +43 50 905 502-602

Peru

HDI Seguros S.A.
Coronel Andrés Reyes 420
Of. 601-A
San Isidro, Lima
Peru
Telephone: +51 1 2303033

Poland

Towarzystwo Ubezpieczeń i Reasekuracji
„WARTA“ S. A
ul. Chmielna 85/87
00-805 Warsaw
Telephone: +48 22 534 1100
Telefax: +48 22 534 1300

Russia

OOO Strakhovaya Kompaniya
„HDI Strakhovanie“
Obrucheveva street 30/1, bld. 1
Moscow, 117485
Telephone: +7 495 967 9283
Telefax: +7 495 967 9 260

Switzerland

HDI Global SE
Switzerland Branch
Dufourstrasse 46
8008 Zurich
Telephone: +41 44 265-4747
Telefax: +41 44 265-4748

Bern office

Seilerstraße 3
3008 Bern Switzerland

Lausanne office

Av. d'Ouchy 14
1006 Lausanne
Telephone: +41 21 614 34 10
Telefax: +41 21 617 34 47

Singapore

HDI Global SE
 Singapore Branch
 23 Church Street #13-05/06
 Capital Square
 Singapore 049481
 Telephone: +65 6922 9522
 Telefax: +65 6536 8085

Slovakia

HDI Versicherung AG
 Slovakia Branch
 Obchodná 2
 811 06 Bratislava
 Telephone: +421 2 5 710 8611
 Telefax: +421 2 5 710 8618

Spain

HDI Global SE
 Sucursal en España
 c/Luchana, 23-5°
 28010 Madrid
 Telephone: +34 91 444-2000
 Telefax: +34 91 444-2019

Delegación en Barcelona

Délegacion en Barcelona
 c/Balmes, 114 – 7°
 08008 Barcelona
 Telephone: +34 93 2721000

South Africa

HDI Global SA Ltd.
 20 Baker Street, 3rd Floor
 Rosebank
 2196 Johannesburg
 Telephone: +27 11 340-0100
 Telefax: +27 11 447-4981

Czech Republic

HDI Versicherung AG
 Czech Republic Branch
 Jugoslávská 29
 120 00 Prague 2
 Telephone: +420 2 2019 0210
 Telefax: +420 2 2019 0299

Turkey

HDI Sigorta A. Ş.
 Büyükdere Caddesi
 Tatlısu Mahallesi
 Arif Ay Sokak
 Binası No: 6
 34774 Ümraniye/Istanbul
 Telephone: +90 212 368-6000
 Telefax: +90 212 368-6010

Hungary

HDI Versicherung AG
 Hungary Branch
 Dohány u. 12-14
 1074 Budapest
 Telephone: +36 1 2482-820
 Telefax: +36 1 2482-829

USA

HDI Global Insurance Company
 161 North Clark Street, 48th Floor
 Chicago, IL 60601
 Telephone: +1 312 580-1900
 Telefax: +1 312 580-0700

Los Angeles office

700 N. Brand Boulevard, #400
 Glendale, CA 91203
 Telephone: +1 818-637-6000
 Telefax: +1 818-637-6015

Vietnam

PVI Insurance Corporation PVI
 Tower
 1 Pham Van
 Bach
 Cau Giay District
 Hanoi
 Telephone: +84 24 3733 5588
 Telefax: +84 24 3733 6284
 (minority interest)

Contact information

HDI Global SE

HDI-Platz 1

30659 Hannover

Germany

Telephone: +49 511 645-0

Fax: +49 511 645-4545

www.hdi.global

www.talanx.com

Group Communications

Telephone: +49 511 3747-2022

Fax: +49 511 3747-2025

E-mail gc@talanx.com



Talanx AG

Geschäftsbereich Industrierversicherung <i>Industrial Lines Division</i>	Geschäftsbereich Privat- und Firmenversicherung Deutschland <i>Retail Germany Division</i> Schaden/ Unfallver- sicherung <i>Property/ Casualty Insurance</i> Lebens- versicherung <i>Life Insurance</i>	Geschäftsbereich Privat- und Firmenversicherung International <i>Retail International Division</i>	Geschäftsbereich Rückversicherung <i>Reinsurance Division</i> Schaden- Rück- versicherung <i>Property/ Casualty Reinsurance</i> Personen- Rück- versicherung <i>Life/ Health Reinsurance</i>	Konzernfunktionen <i>Corporate Operations</i>
HDI Global SE	Talanx Deutschland AG	Talanx International AG	Hannover Rück SE	Talanx Asset Management GmbH
HDI Versicherung AG (Austria)	HDI Versicherung AG	HDI Seguros S.A. (Argentina)	E+S Rückversicherung AG	Ampega Investment GmbH
HDI Global Seguros S.A. (Brazil)	LifeStyle Protection AG	HDI Seguros S.A. (Brazil)	Hannover ReTakaful B.S.C. (c) (Bahrain)	Talanx Immobilien Management GmbH
HDI Global Network AG	neue leben Unfallversicherung AG	HDI Seguros S.A. (Chile)	Hannover Re (Bermuda) Ltd.	Talanx Service AG
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ООО Страховая Компания „HDI Strakhovanie“ (Russia)	HDI Lebensversicherung AG	TUIR WARTA S.A. (Poland)	Hannover Life Re of Australasia Ltd	Talanx Reinsurance (Ireland) SE
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HDI Global Insurance Company (USA)	LifeStyle Protection Lebensversicherung AG	TU na Życie Europa S.A. (Poland)	Hannover Re (Ireland) DAC	
	neue leben Lebensversicherung AG	TU Europa S.A. (Poland)	Hannover Life Reassurance Africa Limited	
	PB Lebensversicherung AG	ООО Страховая Компания „CIV Life“ (Russia)	Hannover Life Reassurance Company of America	
	PB Pensionsfonds AG	HDI Assicurazioni S.p.A. (Italy)		
	Talanx Pensionsmanagement AG	Magyar Posta Biztosító Zrt. (Hungary)		
	TARGO Lebensversicherung AG	Magyar Posta Életbiztosító Zrt. (Hungary)		
		HDI Sigorta A.Ş. (Turkey)		

HDI Global SE

HDI-Platz 1

30659 Hannover

Germany

Telephone: +49 511 645-0

Fax: +49 511 645-4545

www.hdi.global

www.talanx.com