News Release

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Satisfactory first half-year for Talanx

- Gross written premiums in the first half of 2016 are virtually stable, at EUR 16.4 (16.8) billion
- Growth continues for international business
- Robust net investment income
- EBIT rises by 4.8 percent to EUR 1.1 (1.0) billion
- Group net income of EUR 401 (311) million substantially higher than previous year
- Outlook for Group net income in 2016 is confirmed at approximately EUR 750 million

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The Talanx Group views its result for the first half of 2016 as being well on track to achieve the Group's target net income of around EUR 750 million, despite the impact of natural disasters and currency effects. Group net income grew to EUR 401 (311) million. Operating profit (EBIT) improved over the same period in the previous year by 4.8 percent, to EUR 1.1 (1.0) billion. Gross written premiums in the first half of this year remained stable in local currency terms, although adverse currency effects actually reduced premiums by 2.4 percent to EUR 16.4 billion (16.8). The improvement in portfolio quality in Industrial Lines came through strongly. Also, following the strategic realignment of Retail Germany, initial signs of success began to appear. During the same period in the previous year, the full impairment of goodwill in the German life insurance business, amounting to EUR 155 million, had an adverse impact on the Group net income.

"On balance, we are broadly satisfied with the way our business has performed during the first half of 2016, and we are optimistic about achieving our annual targets", stated Herbert K Haas, the Chairman of the Board of Management of Talanx AG. "Natural disasters, large losses and sustained currency effects have also had a detrimental impact on Talanx. Our tasks in Industrial Lines and in Retail Germany are ones that we continue to perform diligently. We are on track, and we look forward to achieving solid performance in our international business which firmly confirms our strategy of internationalisation."

In the first six months of 2016 the burden of large losses amounted to EUR 495 (363) million, but remained within the allocated large loss budget of EUR 506 million. Reinsurance accounted for EUR 353 (197) million of this total, while primary insurance was burdened with EUR 142 (165) million. The most expensive single loss were the fires in the Canadian federal state of Alberta, which cost EUR 132 million, followed by the severe earthquake in Ecuador, which accounted for EUR 57 million. In the second quarter, storms in Germany resulted in losses of EUR 55 million. In overall terms, the Group-wide combined ratio over the first six months remained at a good level, amounting to 96.8 (96.4) percent.

Gross written premiums in the first half year fell 2.4 percent to EUR 16.4 (16.8) billion. Adjusted for currency effects, they were broadly consistent with those from the comparable period of the previous year. The underwriting result increased to EUR -784 (-851) million. With 3.5 (3.8) percent, the Group achieved robust net return on investment as a consequence of diversification. Despite the historically low level of interest rates, net investment income declined by EUR 75 million (3.7 percent) to EUR 2 (2) billion, but remained at virtually the same level as in the previous year. The Group's operating profit rose to EUR 1.1 (1.0) billion. The Group net income stood at EUR 401 (311) million.

In the second quarter of 2016, gross premium income across the Group rose slightly by 0.6 percent to EUR 7.4 (7.4) billion. The combined ratio amounted to 97.3 (96.2) percent. The underwriting result increased to EUR -362 (-462) million. The net investment income amounted to EUR 0.9 (1.0) billion. A positive one-off effect amounting to around EUR 26 million (after tax) in the extraordinary net investment income was the sale of our full shareholding in the asset manager C-Quadrat. The operating profit (EBIT) rose in the second quarter by 31.9 percent to EUR 491 (372) million. Group net income tripled to EUR 179 (60) million.

Implementation of the strategic agenda strides forwards

In the first half of 2016, the Talanx Group has made consistent strides forwards with the implementation of its strategic agenda. This is especially true of the Retail Germany Division. The Group has worked with the Employee Council to agree on an action schedule for the planned job cuts. The Group Employee Council and employers based this plan, primarily, on a voluntary programme that sets out special provisions for the conclusion of termination agreements and arrangements for early retirement candidates. Employees faced with the possibility of different activity profiles will be offered entitlements to reskilling. Furthermore, the action plan reflected the shared commitment to avoiding redundancies, if possible. The provision relating to these measures have an EUR 36 million impact on other expenses. With these expenses, all downsizing costs have been covered.

Some important digitalisation projects have already been implemented and are showing initial signs of success. In April, the digital distribution channel was launched in direct sales. By 30 June, a total of 12,000 contracts had already been concluded online. A loss report app has also been introduced. To date, this digital interface has already been used to report and process 1,000 claims. Furthermore, the introduction of capital-efficient 'modern classic' life insurance policies, launched in January this year, is now almost finalised.

In Industrial Lines, the improvement in portfolio quality is progressing continuously. Optimisation of the motor fleet business has been concluded successfully, and now focused marketing efforts can be pursued. In selected markets, most recently in Genoa and Glasgow, regional offices were opened to tap into the growth potential of small to medium-sized enterprises (SMEs) and to improve service levels at a local level. At the same time, and parallel to this, Talanx is pursuing the enhanced internationalisation of the Group.

Industrial Lines: Stable international growth and improved combined ratio

Industrial Lines continued growing in the first half year. Gross written premiums rose by 3.1 percent to EUR 2.7 (2.6) billion. Adjusted for currency effects, this increase was higher at 4.1 percent. This increase in contributions was achieved especially by the subsidiaries in France and the UK, and by the new company in Brazil. The combined ratio for this division improved to 97.8 (98.7) percent compared to the same period in 2015 due to a decrease in large losses, which remained below expectations, and despite a below-average run-off result. The underwriting result rose to EUR 25 (13) million. Net investment income declined slightly in the first half of 2016, by 3.5 percent to EUR 109 (113) million. Other comprehensive income declined to EUR 9 (16) million, principally as a result of adverse exchange rate results. Operating profit remained stable at EUR 143 (142) million, broadly level with that of the previous year. Due to increased taxes on income, Group net income declined to EUR 91 (97) million.

In the second quarter of 2016, premium income for this division rose substantially above the level of the previous year, and amounted to EUR 785 (736) million. The underwriting result also performed favourably and rose to EUR 12 (7) million. Net investment income stayed stable at EUR 59 (60) million. The combined ratio improved by 0.5 percentage points to 98.1 (98.6) percent. The key driver here was the decline in the cost ratio as a result of increased premium income. The operating profit (EBIT) closed at almost the same level at EUR 69 (70) million. The contribution of the division to the Group net income amounted to EUR 43 (50) million.

Retail Germany: Significant improvement to operating profit

The Talanx Group runs the Retail Germany Division as two separate segments: Property/Casualty and Life insurance, and has started to disclose separate results for each of these. Premium income for this division reached a total of EUR 3.3 (3.7) billion in the first six months of 2016. The net investment income declined only slightly by 1.1 percent to EUR 937 (948) million. The rise in the extraordinary investment income could not balance out the decline in the ordinary investment income. The operating profit (EBIT) for this division rose to EUR 57 (-61) million. Furthermore, the contribution to the Group net income improved significantly to EUR 24 (–104) million. The return on equity was 1.8 (-7.4) percent.

Future investments in the Property/Casualty insurance segment

Premium income in the Property/Casualty insurance segment remained virtually stable in the first six months of 2016 at EUR 980 (989) million. The combined ratio in this segment amounted to 104.7 (101.1) percent. The increase was caused by both the cost ratio and loss ratio in almost equal measure. On the one hand, greater than anticipated levels of weather-related damage were recorded in Germany, causing the loss ratio to rise by 1.3 percentage points while, on the other hand, the investments in digitalisation and automation impacted upon the cost ratio to the tune of 2.5 percentage points.

The underwriting result worsened as a consequence of these impacts to EUR -32 (-8) million. The net investment income remained stable at EUR 47 (49) million. The operating profit (EBIT) for the Property/Casualty insurance segment decreased to EUR -17 (30) million. In addition to the downturn in the underwriting result, this figure also includes the costs already announced for restructuring measures amounting to EUR 22 million. For the most part, these costs were incurred during the second quarter.

In the second quarter, gross premium income in the Property/Casualty insurance segment rose by 1.9 percent to EUR 231 (226) million. The combined ratio amounted to 105.6 (101.8) percent, due primarily to the impact of inclement weather in May and June on the segment, and the division's costs for digitalisation and automation. The underwriting result fell to EUR -18 (-6) million for the same reasons, whereas net investment income remained stable at EUR 25 (25) million. The operating profit (EBIT) was EUR -22 (11) million.

Planned reduction of single premiums in life insurance

In line with the strategy, the premiums in life insurance declined in the first half of 2016 to EUR 2.4 (2.7) billion. This was due primarily to the planned reduction in single premiums. As a consequence, new business in life insurance products declined overall to EUR 202 (236) million, assessed against the annual premium equivalent (APE). In contrast, and in line with planning, sales of biometric insurance products based on APE achieved revenues of EUR 44 (40) million. The underwriting result increased to EUR -780 (-832) million. Net investment income remained virtually constant at EUR 890 (899) million while the operating profit (EBIT) in the Life insurance segment rose to EUR 73 (-91) million, due primarily to the full impairment of goodwill in the previous year.

In the second quarter, the gross written premiums rose by 7.4 percent to EUR 1.2 (1.3) billion. The underwriting result improved to EUR -316 (-442) million, in part as a result of the decrease in the policyholders' participation in the reduced net investment income. In terms of its net investment income, the segment posted a decline to EUR 377 (478) million. This downturn was due first and foremost to lower extraordinary net investment income. The operating profit (EBIT) rose to EUR 31 (-129) million.

Retail International: Strong growth in local currencies

With the report on the first half of 2016, the results for the Retail International Division were disclosed for the first time on a regional basis. Despite adverse currency effects, premium income in the entire division rose by 4.0 percent to EUR 2.5 (2.4) billion. Adjusted for currency effects, this increase in premium income represents the much higher figure of 11.9 percent. In the Latin American region, currency effects had a greater impact on premium income than in the European region. Here the positive development of the single premium business in life insurance in Italy was able to more than compensate for the decline in premiums in Poland, where the introduction of an asset tax and other regulatory developments in the early part of 2016 dampened the business development.

The combined ratio rose slightly by 1.2 percentage points to 96.4 (95.2) percent, primarily as a result of an increase in the loss ratio of 1.0 percentage points. The main cause is the economic crisis in Brazil. On the one hand, inflation and currency effects led to higher costs for spare parts; on the other hand, there has also been a rise in car theft. The underwriting result fell to EUR 7 (19) million. The division's net investment income fell by 8.4 percent to EUR 153 (167) million. A decisive factor here was the decline in interest rates, in particular in Poland and Italy, both of which account for the highest volumes of investment income in this division.

The operating profit (EBIT) for the first six months of 2016 was EUR 106 (127) million. The decrease of approximately EUR 20 million stems in equal measure from the non-tax-deductible asset tax in Poland that impacted on both other income and the tax ratio, and from currency effects. Without these effects, the operating profit (EBIT) would have remained at the same level as in the previous year. The Group net income declined by 16.9 percent to EUR 64 (77) million.

For the second quarter of 2016 the segment also posted a 12.9 percent increase in gross written premiums, rising to EUR 1.3 (1.2) billion. Adjusted for currency effects, that increase amounted to 20.6 percent. The combined ratio rose to 96.7 (95.7) percent. The underwriting result amounted to EUR -1 (11) million, while the net investment income was EUR 73 (88) million. Operating profit (EBIT) reduced due to currency effects and the asset tax in Poland in the quarter to EUR 45 (71) million. The contribution to Group net income amounted to EUR 28 (44) million.

Non-Life Reinsurance: Continuing high level of intense competition

The gross written premiums in the Non-Life Reinsurance segment declined by 6.9 percent to EUR 4.6 (5.0) billion in the first six months of 2016. Adjusted for currency effects, this decline amounted to 5.6 percent. The combined ratio of the first half year stood at 95.4 (95.4) percent and thus remained on the level of the first half year of 2015. This was within the boundaries of the target, which was not to exceed 96 percent. This meant that the underwriting result remained almost stable at EUR 165 (167) million. Net investment income reduced slightly, standing at EUR 431 (437) million after the first half of 2016. Against this backdrop, the segment posted an operating profit of EUR 580 (616) million, constituting a decline of 5.8 percent. The contribution to Group net income fell to EUR 187 (206) million.

In the second quarter, premium income fell by 9.8 percent to EUR 2.1 (2.4) billion. Operating profit (EBIT) declined by 19.9 percent to EUR 270 (337) million. In the second quarter, the segment contributed EUR 83 (119) million to Group net income.

Life/Health Reinsurance: Very good overall profitability

In Life/Health Reinsurance, premium income rose by 1.2 percent to EUR 3.7 (3.6) billion in the first half of 2016. In local currency terms, the growth rate amounted to 4.2 percent. The underwriting result improved by 18.1 percent to EUR -176 (-216) million. Net investment income declined by 12.3 percent to EUR 321 (366) million. The figure for the first six months of 2015 was much higher due to a one-off effect. Operating profit declined by 10.3 percent to EUR 174 (194) million. The contribution of the segment to Group net income amounted to EUR 63 (69) million.

In the quarterly view, gross premiums for Life/Health Reinsurance rose by 3.5 percent to EUR 1.9 (1.8) billion. Operating profit (EBIT) rose substantially to EUR 71 (18) million. The segment contributed EUR 25 (3) million to Group net income.

Outlook for 2016

Talanx views itself as being on course in terms of operational business and of its ongoing strategic initiatives, especially in Industrial Lines and in Retail Germany. As a consequence, the Group reaffirms its outlook for the 2016 financial year. Talanx continues to strive for Group net income of around EUR 750 million. The Group continues to expect stable gross premium income for the financial year based on steady exchange rates. The IFRS return on investment should amount to at least 3.0 percent and the return on equity should be greater than 8.5 percent.

As usual, the targets for the 2016 financial year assume no disruptions on the currency and capital markets and that any large losses will be within expected range. It is also a stated aim for 2016 to pay out 35 to 45 percent of Group net income as dividends.

Key data from the Talanx Group income statement, 1st half of 2016, consolidated (IFRS)

EUR million	6M 2016	6M 2015	+/-
Gross written premiums	16,427	16,827	-2.4%
Net premiums earned	12,810	12,751	+0.5%
Combined ratio in property/casualty insurance and Non-Life Reinsurance	96.8%	96.4%	+0.4 pt.
Net investment income	1,962	2,037	-3.7%
Operating profit (EBIT)	1,064	1,015	+4.8%
Group net income (after non-controlling interests)	401	311	+28.9%
Return on equity [1]	9.5%	7.8%	+1.7 pt.

Key data from the Talanx Group income statement, Q2 of 2016, consolidated (IFRS)

EUR million	Q2 2016	Q2 2015	+/-
Gross written premiums	7,432	7,387	+0.6%
Net premiums earned	6,544	6,384	+2.5%
Combined ratio in property/casualty insurance and Non-Life Reinsurance	97.3%	96.2%	+1.1 pt.
Net investment income	940	1,041	-9.7%
Operating profit (EBIT)	491	372	+31.9%
Group net income (after non-controlling interests)	179	60	+198.3%
Return on equity [1]	8.4%	2.8%	+5.6pt.

1) Annualised net income for the reporting period excluding non-controlling interests relative to average equity excluding non-controlling interests.

All documentation relating to the interim report:
http://www.talanx.com/investor-relations/presentations-and-events/disclosure/2016.aspx?sc_lang=en

Financial calendar:
http://www.talanx.com/investor-relations/finanzkalender/termine.aspx?sc_lang=en

About Talanx

With premium income of EUR 31.8 billion (2015) and about 22,000 employees, Talanx is one of the major European insurance groups. The Hannover-based Group is active in some 150 countries. Talanx operates as a multi-brand provider with a focus on B2B insurance. Under the HDI brand, which can look back on more than 100 years of tradition, Talanx operates both in Germany and abroad in industrial lines as well as retail business. Further Group brands include Hannover Re, one of the world's leading reinsurers, Targo Versicherungen, PB Versicherungen and Neue Leben, the latter all specialized in bancassurance, the Polish insurer Warta, and the financial services provider Ampega. The rating agency Standard & Poor's has given the Talanx Primary Group a financial strength rating of A+/stable (strong) and the Hannover Re Group one of AA–/ stable (very strong). Talanx AG is listed on the Frankfurt Stock Exchange in the MDAX as well as on the stock exchanges in Hannover and Warsaw (ISIN: DE000TLX1005, German Securities Code: TLX100, Polish Securities Code: TNX).

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