News Release

Talanx reports overall good half-year results

- Gross written premiums grow by 6.9 percent to EUR 18.8 (17.6) billion
- Combined ratio improves to 96.7 (97.0) percent
- Robust return on investments at 3.5 (3.7) percent
- EBIT rises by 7.7 percent to EUR 1.2 (1.1) billion
- Group net income stands at EUR 437 (463) million
- Outlook for Group net income for full year of around EUR 850 million confirmed

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The Talanx Group continued its trajectory of profitable growth in the first half of 2018, and has already earned over half of the targeted annual result. Gross written premiums increased clearly by 6.9 percent to EUR 18.8 (17.6) billion. Adjusted for currency effects, the increase was in double digits at 11.8 percent. The decisive factors here were Property/Casualty Reinsurance, together with the growth in the Retail International business. EBIT grew by around eight percent, thanks to an improved underwriting result, to EUR 1.2 (1.1) billion. All divisions except for Industrial Lines contributed to the growth in EBIT. The tax expenditure increased in the first half of 2018 across the Group as a whole by over EUR 90 million, comprising the effects of the US tax reform and significantly higher tax rates in the Retail Germany Division, following a one-off positive effect last year. Due to these effects, Group net income came in below the previous year at EUR 437 (463) million. Based on the overall good business trends in the first six months, Talanx confirms its Outlook for Group net income of around EUR 850 million in 2018 as a whole.

"Given the course of business in the first half of 2018, we are very satisfied. We have successfully continued growth in our core overseas markets as well as in the German property insurance business with retail customers, and are still overall on the right path to increase profitability in our home market. This result demonstrates the Group's robust structure. This is also reflected in the double-digit return on equity of ten percent. We are not satisfied with the results in the Industrial Lines' Fire line in Germany. During the second quarter, we made a start on our 20/20/20 Programme, with new management appointments to restructure fire insurance with the focus on Germany. We thereby want to reduce the combined ratio in the affected 20 percent of the Industrial Lines portfolio to well below 100 percent by 2020. To achieve this, we are looking for premium increases of 20 percent on average. The adjustments to rates are already under way. Around one third of the necessary price increases had already been applied by the middle of 2018. We expect the vast majority of the restructuring measures in fire insurance to take effect in 2019," said Torsten Leue, Chairman of the Talanx AG Board of Management.

In the first half of the year, the burden of natural disasters and large losses amounted to EUR 241 (195) million, which remained within the proportional large-loss budget of EUR 501 million. The unused budget will provide a robust shock-absorber for the second half of the year. Large losses of EUR 93 (123) million occurred in the Reinsurance Division. The Group-wide combined ratio over the first six months improved to 96.7 (97.0) percent, which meant that it remained at an acceptable level.

The underwriting result improved to EUR -748 (-940), supported by a low claims burden across the Group. Net investment income declined by 3.7 percent to EUR 2.0 (2.1) billion. This fall is caused, among other things, by the fact that the Retail Germany Division had fewer profits to finance the Zinszusatzreserve (ZZR; additional interest reserve), in expectation of the new ZZR arrangement. Talanx achieved a robust net return on investment of 3.5 (3.7) percent. The growth in EBIT was 7.7 percent, to EUR 1.2 (1.1) billion. Group net income dropped to EUR 437 (463) million because of the substantial increase in tax expenditure, due to one-off tax effects in the prior year, combined with the effects of the US tax reform.

The capitalisation of the Talanx Group continues to be comfortable. Excluding transitional measures, the Solvency II ratio as at the reporting date of 31 March 2018 was 207 (FY 2017: 206) percent, putting it slightly above the target range of between 150 and 200 percent.

Second quarter: Strong improvements in underwriting result

In the second quarter, the gross written premiums grew by 5.1 percent to EUR 8.2 (7.8) billion. The underwriting result improved to EUR -318 (-525) million. The combined ratio further improved in the second quarter compared to the half-year figure, to 96.5 (97.6) percent. Net investment income fell by 12.1 percent to EUR 944 (1,074) million. EBIT grew by 12.9 percent to EUR 620 (549) million, while Group net income fell by 2.7 percent to EUR 219 (225) million.

Industrial Lines: High level of claims in the first half of the year

Gross written premiums in the Industrial Lines Division increased by 3.7 percent to EUR 2.9 (2.8) billion. Adjusted for currency effects, this increase was 6.9 percent. In line with strategy, this growth is mainly from overseas, from Australia, the Netherlands and France. Retentions grew, also in line with strategy, to 58.9 (54.4) percent.

The underwriting result deteriorated to EUR -28 (32) million. The combined ratio rose to 102.3 (97.2) percent, primarily due to the higher property claims in the current financial year, mainly in the German fire line. "The sector expects that overall industrial property insurance in Germany will have a combined ratio of 115 percent for 2018. In the first half of 2018, unfortunately, we as well were unable to escape this," said Christian Hinsch, member of the Talanx AG Board of Management with responsibility for the Industrial Lines Division. “Thanks to our 20/20/20 Programme, we will significantly reduce the combined ratio, especially for German fire insurance, over the next 18 months to return to a positive underwriting result. This includes the reduction in market share and giving up some business." The positive run-off result showed itself normalized after the second quarter. Overall after the first half year, the run-off result lay slightly above the previous year’s period. Net investment income declined to EUR 124 (137) million. EBIT dropped due to the events described above, to EUR 78 (162) million. The contribution to Group net income fell to EUR 53 (112) million.

Second quarter: International premium growth

In the second quarter, gross written premiums rose by 7.3 percent to EUR 849 (791) million. Adjusted for currency effects, the increase was 10.0 percent. The underwriting result decreased to EUR -15 (13) million. Net investment income also fell to EUR 56 (68) million. EBIT decreased from EUR 82 million to EUR 27 million, with the contribution to Group net income falling to EUR 22 (53) million.

Retail Germany: EBIT growth

The Retail Germany Division was once again on the right path at the end of the first half of the year to increase its profitability. EBIT grew significantly to EUR 88 (63) million. The contribution to Group net income remained rather stable at EUR 50 (50), because the tax rate rose substantially, following a positive one-off effect in the prior year.

Property/Casualty Insurance segment: Profitable growth

Gross written premiums in the Property/Casualty Insurance segment rose by 2.0 percent to EUR 1,022 (1,002) million. The increase came primarily from the third-party liability, accident and property insurance lines of business. The underwriting result improved visibly from EUR -9 to 8 million. The causes of this included profitable growth with stable expenses. The burdens of around EUR 12 million due to the winter storm "Friederike" in the first quarter were more than offset. The combined ratio consolidated below 100 percent, and improved by 2.5 percentage points to 99.0 (101.5) percent. "With our KuRS modernisation programme, we are further on the right track, and in fact slightly ahead of schedule with the implementation. This favourable trend can also be seen in the combined ratio, adjusted for the KuRS expense, which is a welcome 96.7 percent," stated Jan Wicke, member of the Talanx AG Board of Management with responsibility for the Retail Germany Division. Net investment income remained unchanged at EUR 44 million compared to the same period in the prior year. EBIT especially was able to be increased thanks to improvements in underwriting to EUR 40 (22) million.

Second quarter: Further improvements in underwriting

In the second quarter, gross written premiums fell only slightly by 0.4 percent to EUR 242 (243) million. The underwriting result improved to EUR 5 (-3) million. The combined ratio improved to 98.9 (101.3) percent. Adjusted for the costs of the KuRS modernisation programme, the combined ratio was 96.1 (98.3) percent. The net investment income improved by 21.2 percent, to EUR 23 (19) million. EBIT rose to EUR 22 (9) million.

Life Insurance segment: Lower contribution to the ZZR fund

Premium income in the Life Insurance segment fell by 2.9 percent to EUR 2.2 (2.3) billion. The cause of this was the drop in both regular premiums and also single premiums. New business for life insurance products – measured in annual premium equivalent (APE) – rose slightly to EUR 195 (194) million. The share of capital-efficient and biometric products in the first half of 2018 remained constant compared to the same period in the prior year, at a high 71 (71) percent. The underwriting result improved to EUR -858 (-901) million. It will continue to be determined by the policyholder participation in net investment income. This fell by 3.0 percent to EUR 922 (951) million. This drop is due to a lower level of realisation of hidden reserves to finance the expected ZZR (additional interest reserve) contribution. EBIT improved to EUR 48 (41) million, thanks to a lower allocation to the provision for premium refunds (RfB), based on the tax refunds.

Second quarter: Significant improvement in EBIT

In the second quarter, gross written premiums in the Life Insurance segment only fell slightly by 0.8 percent to EUR 1,152 (1,161) million. The underwriting result improved to EUR -391 (-485) million. Net investment income fell to EUR 433 (516) million. EBIT managed to show an improvement to EUR 28 (20) million.

Retail International: Strong growth in premiums and Group net income

Gross written premiums rose by 4.8 percent to EUR 3.0 (2.8) billion. Adjusted for currency effects, the increase was 9.6 percent overall, and property/casualty in particular showed double-digit growth in local currency of 12.2 percent. Both the target regions of Europe and Latin America increased their premium volumes. In Latin America, premium income grew due to an increase in the number of insured vehicles, coupled with higher average premiums. Brazil, Mexico and Chile managed to increase premium income in local currency. In Europe, the growth came mainly from Poland, with the number of insured vehicles rising from 4.6 to 5.2 million at unchanged average premium levels.

The underwriting result rose significantly to EUR 33 (14) million. The combined ratio improved by 1.8 percentage points to 94.6 (96.4) percent. "Our focused growth is paying off in a clearly improved underwriting result," said Sven Fokkema, member of the Talanx AG Board of Management with responsibility for the Retail International Division. The cost improvement measures had a positive effect in Poland and Brazil. Net investment income rose slightly by 0.6 percent to EUR 174 (173) million. EBIT rose compared to the prior year period by 19.0 percent to EUR 138 (116) million. The contribution to Group net income increased by 12.2 percent to EUR 83 (74) million.

Second quarter: Stable contribution to earnings

In the second quarter, gross written premiums rose by 9.1 percent to EUR 1.5 (1.3) billion. The underwriting result rose to EUR 18 (7) million. The combined ratio improved to 94.2 (96.2) percent. Net investment income fell to EUR 82 (86) million. EBIT showed a rise of 28.3 percent to EUR 68 (53) million. The contribution to Group net income rose to EUR 42 (34) million.

Reinsurance: Solid contribution to Group net income

The Reinsurance Division was able to increase its contribution to Group net income at the half-year mark, despite a negative one-off effect from the US tax reform in the first quarter. Group net income rose by 5.6 percent to EUR 281 (266) million. "Once again, both the Property/Casualty and Life/Health Reinsurance segments, together with a stable net investment income, have delivered a positive result," said Ulrich Wallin, member of the Talanx AG Board of Management with responsibility for the Reinsurance Division.

Property/Casualty Reinsurance segment: Strong premium growth

Gross written premiums rose in the first half of the year by 19.1 percent to EUR 6.5 (5.4) billion. Adjusted for currency effects, the increase was 27.6 percent. The underwriting result rose to EUR 206 (149) million. The combined ratio moved to 95.7 (96.5) percent, thus being in the target range of below 96 percent. Net investment income grew, with an increase of 5.5 percent to EUR 517 (490) million. EBIT managed to show a double-digit improvement to EUR 704 (644) million.

Second quarter: Low large-loss burden

In the second quarter, gross written premiums rose by 10.5 percent to EUR 2.9 (2.6) billion. The underwriting result rose to EUR 115 (58) million. The combined ratio improved to 95.5 (97.4) percent. Net investment income improved slightly by 1.3 percent to EUR 243 (240) million. EBIT increased by 9.4 percent to EUR 360 (329) million.

Life/Health Reinsurance: Strong rise in EBIT

In Life/Health Reinsurance, premium income fell slightly by 1.5 percent to EUR 3.5 (3.6) billion. Adjusted for currency effects, gross written premiums rose by 3.7 percent. The underwriting result rose to EUR -108 (-229) million. Net investment income showed a decline to EUR 239 (300) million, against a background of low interest rates. EBIT grew significantly to EUR 213 (156) million.

Second quarter: Underwriting improved

In the second quarter, gross written premiums fell by 4.7 percent to EUR 1,752 (1,838) million. The underwriting result rose to EUR -53 (-115) million. Net investment income declined to EUR 116 (152) million. EBIT was able to show a clear improvement to EUR 121 (70) million.

Outlook

After an overall good performance in the first half of 2018, Talanx confirms its Outlook. The Talanx Group continues to aim for Group net income of around EUR 850 million. This target will be more difficult to achieve if a very high strain were to be incurred in Life/Health Reinsurance from treaty recaptures in US mortality business. Gross premium growth should be more than 5.0 percent – based on steady exchange rates. The IFRS net return on investment should be at least 3.0 percent and return on equity is expected to be around 9.0 percent. These targets assume that any large losses will be within the expected range and that there will be no disruptions on the currency and capital markets. The aim is to distribute between 35 and 45 percent of Group net income as a dividend payment for 2018 and to ensure that dividends at least remain stable compared to the previous year.

Key data from the Talanx Group income statement, 1st half of 2018, consolidated (IFRS)

EUR million	6M 2018	6M 2017[1]	+/-
Gross written premiums	18,760	17,553	+6.9%
Net premiums earned	14,435	13,450	+7.3%
Combined ratio in property/casualty primary insurance and Property/Casualty Reinsurance[2]	96.7%	97.0%	-0.3%pts.
Net investment income	2,007	2,085	-3.7%
Operating profit (EBIT)	1,212	1,125	+7.7%
Group net income (after non-controlling interests)	437	463	-5.6%
Return on equity [3]	10.0%	10.3%	-0.3%pts.

Key data from the Talanx Group income statement, Q2 of 2018, consolidated (IFRS)

EUR million	Q2 2018	Q2 2017[1]	+/-
Gross written premiums	8,200	7,801	+5.1%
Net premiums earned	7,446	6,752	+10.3%
Combined ratio in property/casualty primary insurance and Property/Casualty Reinsurance[2]	96.5%	97.6%	-1.1%pts.
Net investment income	944	1,074	-12.1%
Operating profit (EBIT)	620	549	+12.9%
Group net income (after non-controlling interests)	219	225	-2.7%
Return on equity[3]	10.1%	9.8%	+0.3%pts.

1) Adjusted in line with IAS 8.
2) Including net interest income on funds withheld and contract deposits
3) 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/2018.aspx?sc_lang=en

Financial calendar:
http://www.talanx.com/investor-relations/finanzkalender/termine.aspx

About Talanx

With premium income of EUR 33.1 billion (2017) and about 20,000 employees, Talanx is one of the major European insurance groups. The Hannover-based Group is active in more than 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 insurance as well as retail business. Further Group brands include Hannover Re, one of the world's leading reinsurers, Targo insurers, PB insurers and neue leben, the latter all specialised in bancassurance, as well as the Polish insurer Warta. Talanx Asset Management is one of the top asset management companies in Germany and manages the assets of the Talanx Group. With its subsidiary Ampega Investment, Talanx Asset Management is also an experienced provider of solutions for outsourcing in the B2B market. 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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